

ICONIQ | Growth

Scaling SaaS: Forging Excellence Through Fundamentals

Topline Growth and Operational Efficiency

September 2024

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Author's Note



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At ICONIQ Growth, we believe data is the key to unlocking success in the dynamic world of technology. Every year, the ICONIQ Growth Analytics team analyzes financial and operating data from our portfolio and select public companies to understand the data behind scaling a SaaS company. Powered by more than a decade's worth of data, this analysis culminates in our annual Growth & Efficiency report, which we share publicly to support leaders and foster data-driven decision-making across the software landscape.

The last four years have presented both exciting opportunities and unprecedented challenges for software businesses. Companies had to rapidly transition from a 'growth at all costs' environment in 2020-2021 to an era of efficiency starting in 2022 and persisting through 2023. As we reflect on the first half of this year and outlook through the rest of the year, we expect to remain in a period of austerity for the near-term future.

Amid these trends, the theme of our growth and efficiency report this year is "Scaling SaaS: Forging Excellence Through Fundamentals". We believe great companies are forged during difficult times, and while macroeconomic context will always be shifting, we believe the fundamentals of what makes a great company do not. The combination of persistent growth, strong unit economics, and a path to profitability can fuel companies on their journey and position them for long-term success as markets oscillate and, eventually, stabilize.

The Authors

ICONIQ Growth Analytics

Seeking to empower our portfolio with proprietary insights and advisory across business operations, hiring, and strategy



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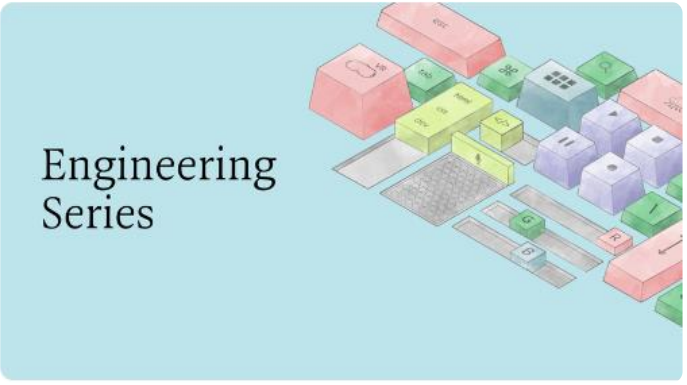


Vivian Guo

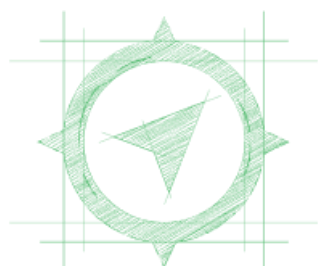
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Introducing



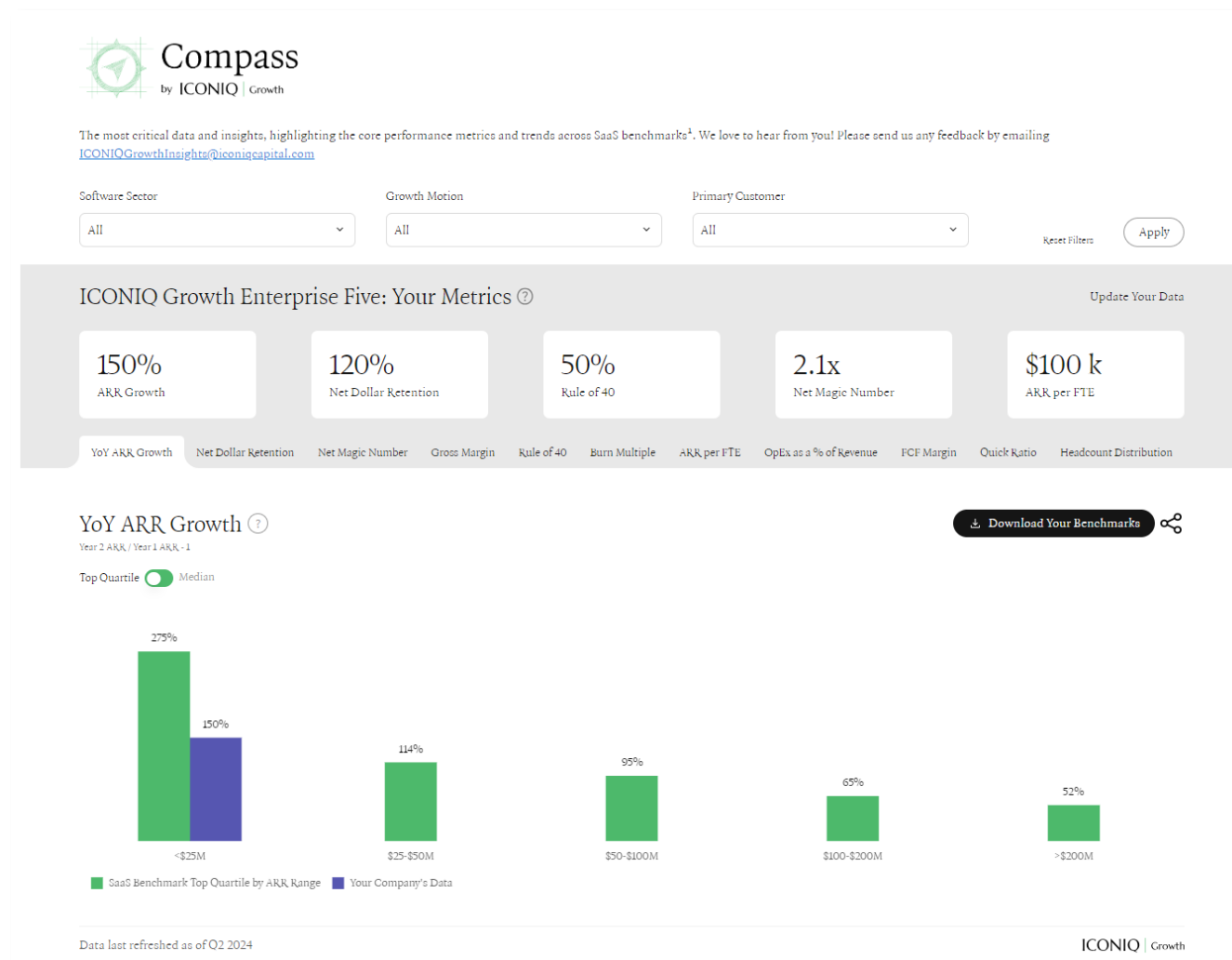
Compass

by ICONIQ | Growth

Explore Compass

Our new interactive companion tool allows users to navigate topical insights and explore ICONIQ Growth's proprietary SaaS benchmarks¹.

Users can **filter benchmarks** across sectors and growth motions, **calculate and compare their metrics** against ICONIQ Growth's benchmarks, and **download results into a formatted report** for their next Board meeting, all-hands, or fundraise.



¹ The Compass SaaS benchmark data reflects data gathered from all ICONIQ Growth portfolio companies where data was available as well as data from a sampling of public B2B SaaS companies. This data does not, and should not be taken to, represent the performance of any ICONIQ fund or investment program and must not be relied upon in connection with any investment decision

Introduction

Table of contents, companies included, firmographics
and methodology

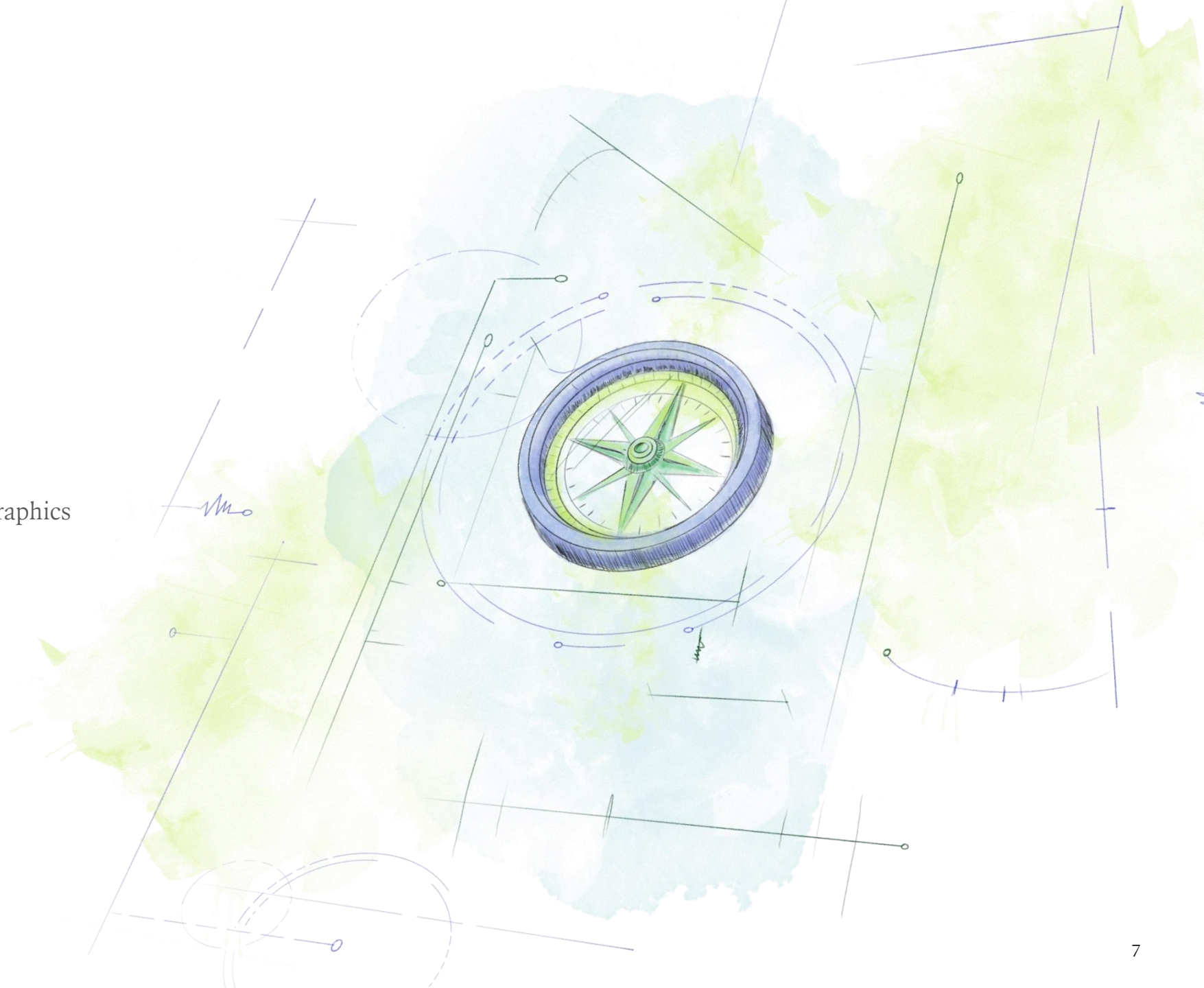


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State of SaaS in 2024

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The Evolution of SaaS companies

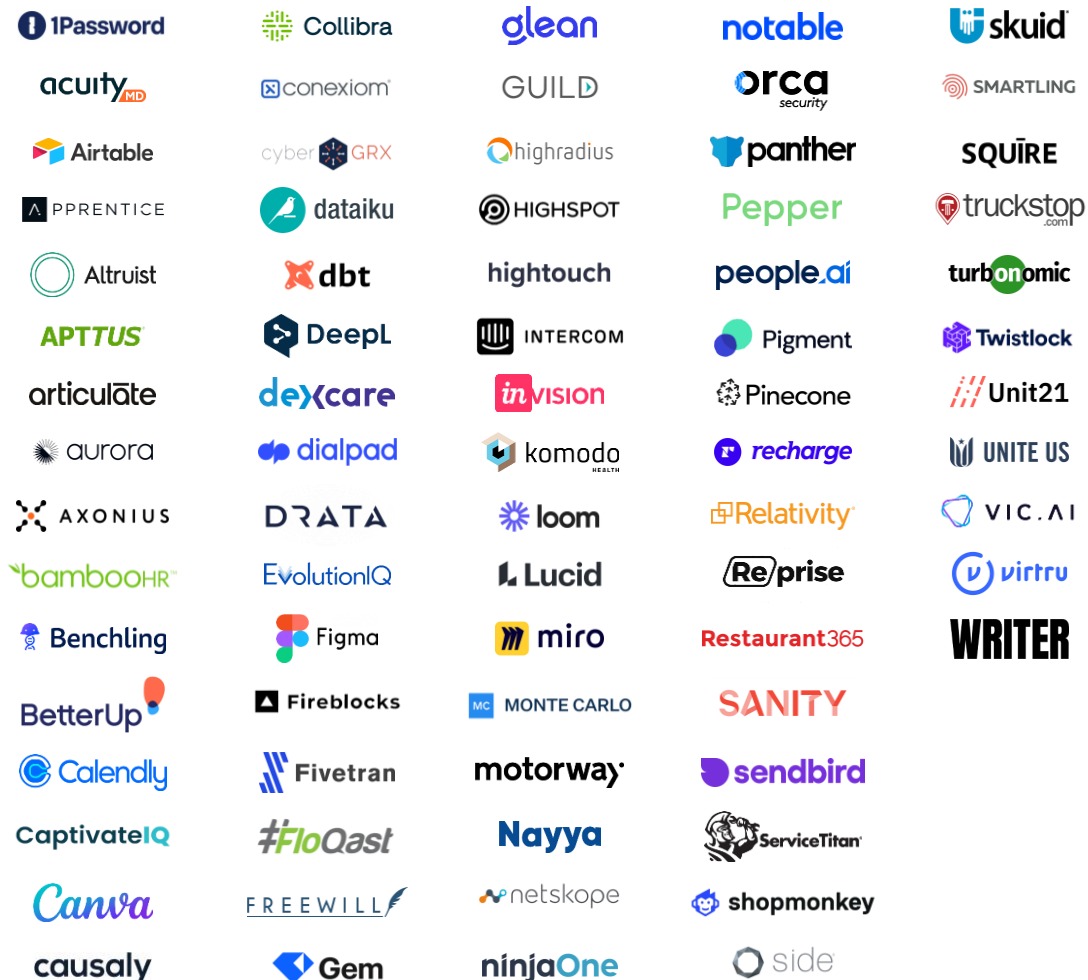
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Companies Included

This study summarizes quarterly operating and financial data from 107 B2B SaaS companies, including ICONIQ Growth's B2B portfolio companies (where data was available) and an additional 13 public companies selected based on our IPO performance criteria¹.

ICONIQ Growth Portfolio Companies

Private



Public or Acquired



¹ See our IPO performance criteria in The Methodology section. Trademarks are the property of their respective owners. None of the companies illustrated have endorsed or recommended the services of ICONIQ.

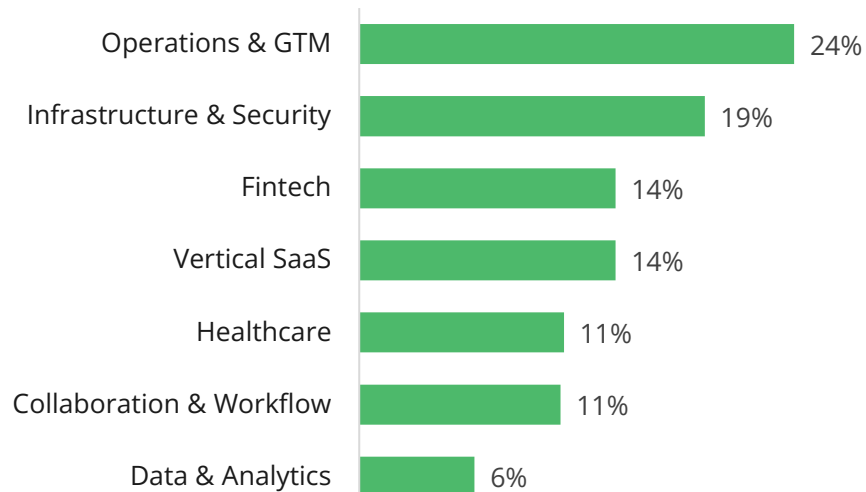
Select Public Companies



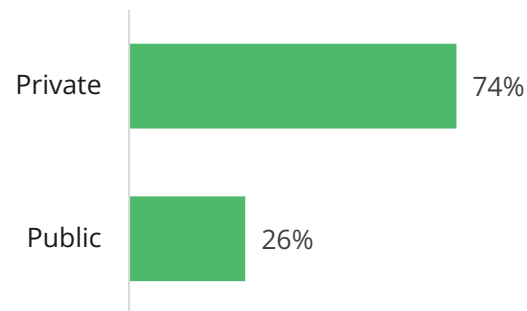
Firmographics

The companies in the study represent a mix of sectors and business models that we feel are highly representative of the overall B2B SaaS market. Firmographic charts show the percent of companies included in the analysis by category.

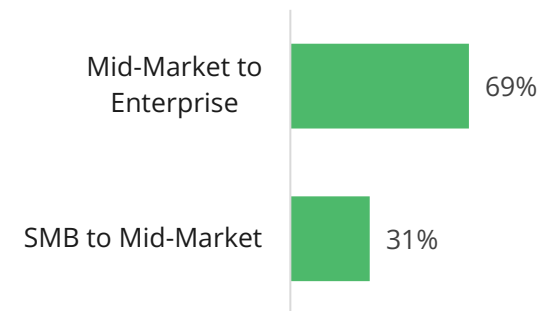
By Sector



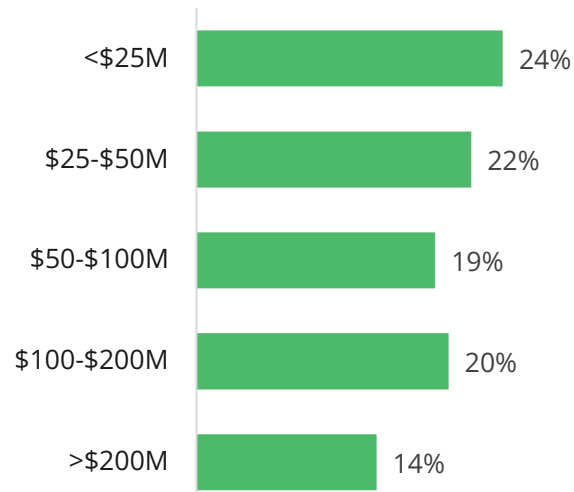
By Current Ownership



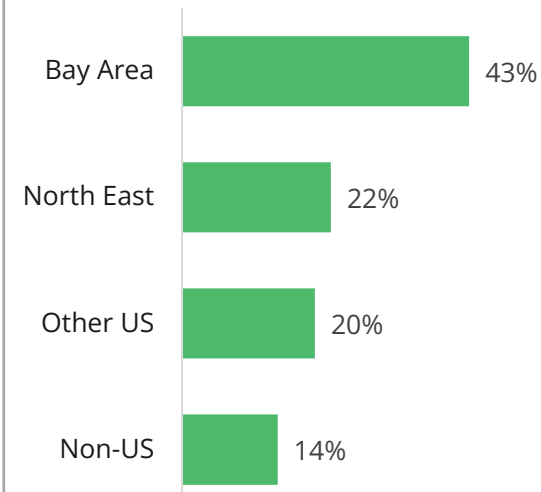
By Target Customer



By ARR Range



By Location¹



¹ Location of Company Headquarters; many companies included have operations internationally

Methodology & Data Sources¹

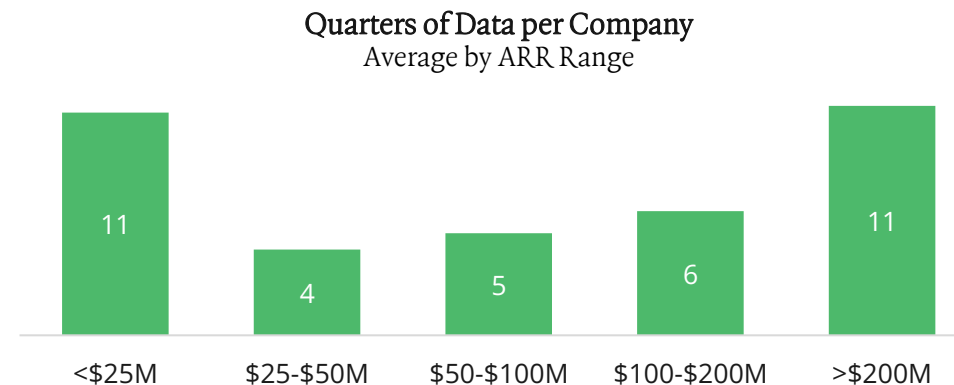
All views included have been aggregated or anonymized to protect the data privacy of individual companies.

Unless otherwise indicated, references to “SaaS companies” or “software companies” only reflect trends observed with the companies included in the dataset. In addition, in the “The State of SaaS in 2024” section, we have categorized companies by scale based on annual recurring revenue or revenue run-rate:

- **Early-stage:** less than \$25M in ARR
- **Growth-stage:** \$25-100M in ARR
- **Late-stage:** more than \$100M in ARR

N-sizes²

Each datapoint (n) represents a single fiscal quarter of data per company included. 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

The dataset includes 13 public companies that are not (and have not previously been) ICONIQ Growth portfolio companies. All data was collected from public filings information³. These companies were categorized as top IPO performers because they ranked in the top quartile in two or more of the following criteria:

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)*

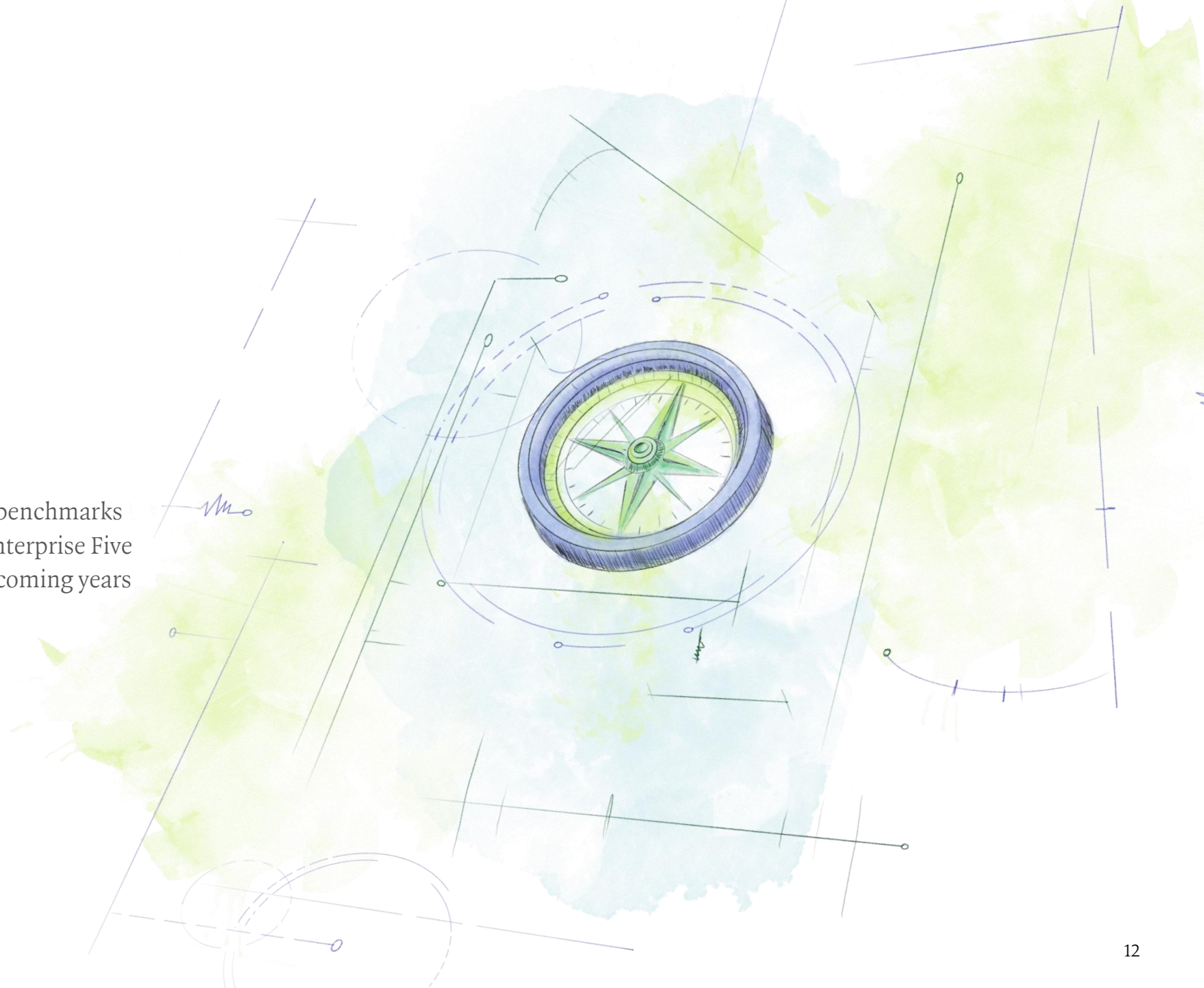
¹ The conclusions of this study represent the views of the ICONIQ Growth Portfolio Analytics team and are not intended to serve as an analysis of the value, viability or health of any individual company or group of companies, and should not be used to make any decision about whether to invest in any company or group of companies, including through a private fund

² All Portfolio data as of 8/12/2024

³ Public filings information as of 7/1/2024

Key Insights

Overview and summary of the key insights and benchmarks from this year's research, including the latest Enterprise Five scorecard and an update on predictions for the coming years



What's Included

PART 1 | Pages 22-35

The State of SaaS in 2024

We've observed that the evolving macro environment has presented substantial challenges for SaaS leadership teams. As leaders strive to adapt and prioritize across various growth and efficiency levers, we believe understanding performance on a relative and real-time basis is critical.

To that end, Part 1 explores how SaaS performance has changed over the last four years, offering a detailed look into the impact of recent market dynamics, the resulting shifts in strategy leaders have made, and how these drivers have played out in the operational and financial profiles of SaaS companies.

How have the last four years impacted performance against key top-line SaaS metrics?
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How have companies adapted bottom-line efficiency in response to growth headwinds?
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How are these changes impacting spend, team productivity, and organizational efficiency?
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PART 2 | Pages 36-67

The Evolution of SaaS Companies

In tandem with the latest trends in SaaS, we believe operators should orient their long-term performance towards the broader perspective of how software businesses evolve as they scale, regardless of time period.

Part 2 details insights aggregated from ICONIQ Growth's proprietary database of over a decade's worth of SaaS operating and financial data. This includes key performance indicators as companies scale from \$10M to post-IPO and recommends goalposts for what we believe to be "best-in-class" performance at each of these mile markers.

How quickly and consistently do companies grow?
P39-40

What are the drivers of this growth?
P41-44

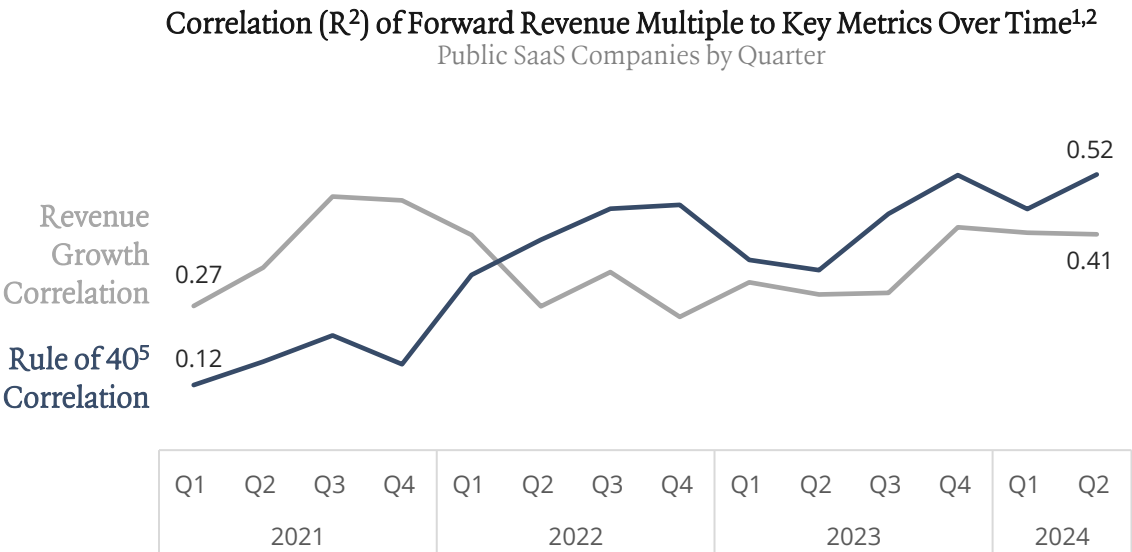
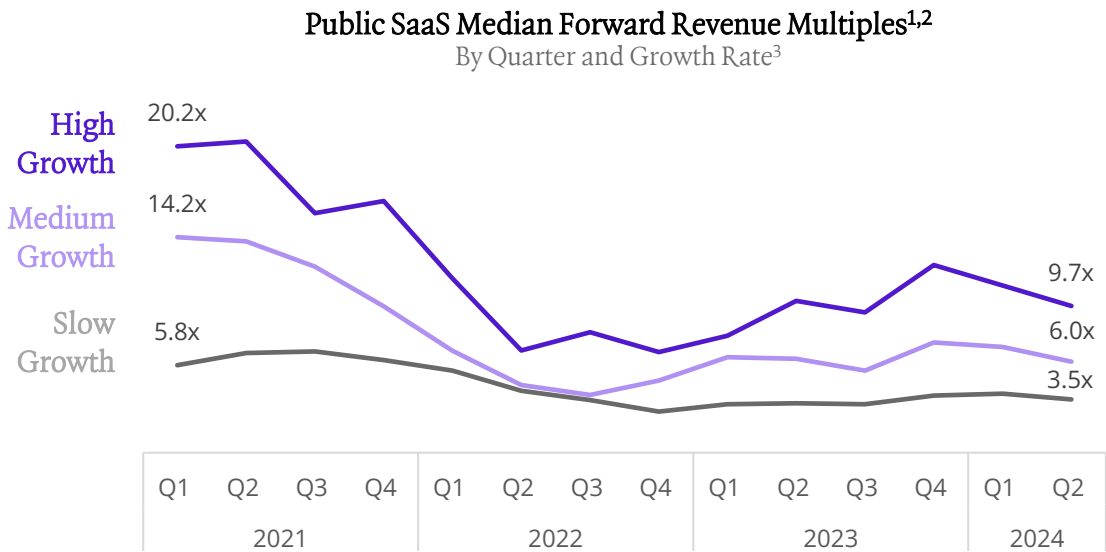
How well is ARR being retained?
P46-48

What is the spend associated with this growth?
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What is the composition of spend and how is the team scaling to support growth?
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The State of Public SaaS

- Valuation multiples for public SaaS companies¹ compressed in Q2 2024, with high-growth companies seeing the most contraction after a run-up in late 2023. We believe that while investor optimism around the ability for generative AI products to re-accelerate topline growth and drive significant efficiencies remains, it has yet to significantly manifest in most SaaS companies’ operating results, feeding the rationalization of multiples in recent months
- Despite a higher percentage of public companies beating revenue consensus compared to previous Q2s, **fewer companies are raising full-year guidance**, which we believe reflects a desire to guide cautiously and signals anticipation of further softness through the rest of 2024⁴
- Efficient growth remains critical, with **Rule of 40’s correlation to forward revenue multiples continuing to exceed that of revenue growth alone**

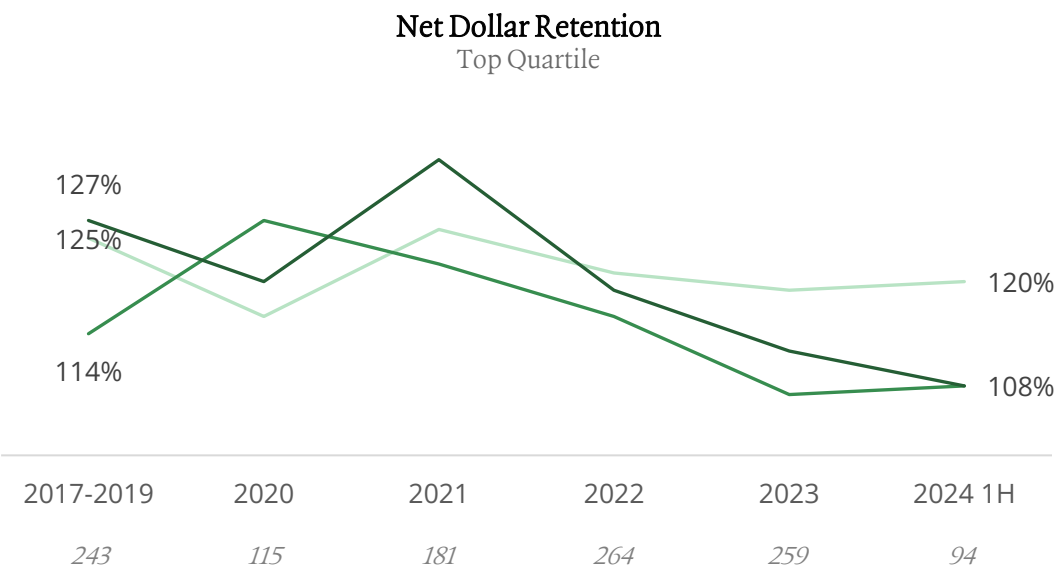
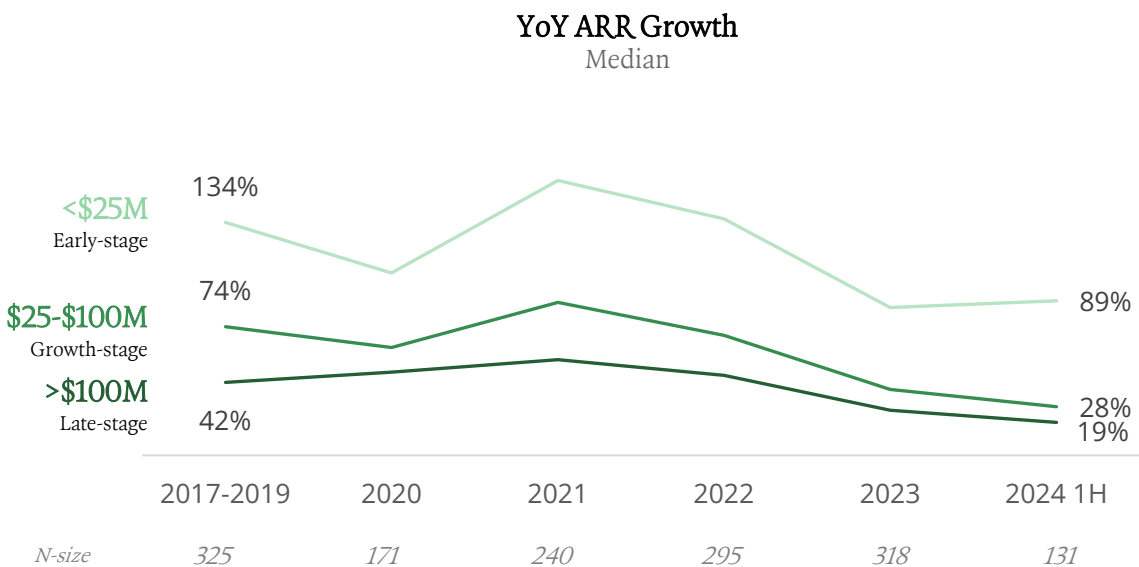


1 Public company 424B4 filings, FactSet as of August 2, 2024
2 Forward Revenue Multiple calculated as EV/NTM Revenue
3 High Growth defined as 27%+ year over year growth; medium growth defined as 15-27% year over year growth, and slow growth defined as <15% year over year growth based on the distribution of the dataset
4 ICONIQ Growth Analytics Q2 Recap (available to ICONIQ Growth portfolio companies only)
5 Rule of 40 calculated as YoY ARR Growth + FCF Margin

Key Insights

The State of Private SaaS | Impact to top-line

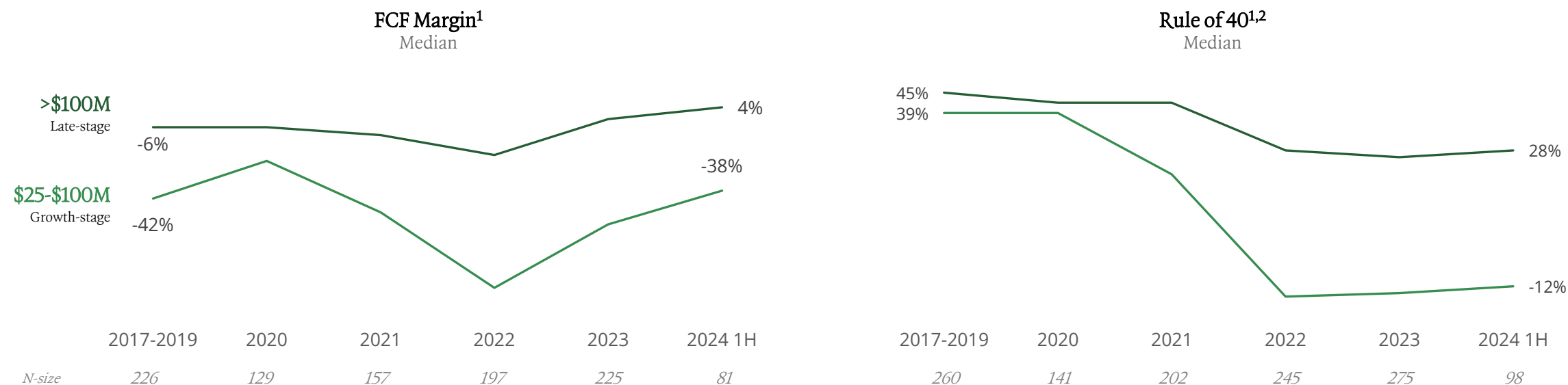
- In the private markets, **topline growth for growth-stage and late-stage companies is at its lowest in the past eight quarters**, reflecting the ongoing challenges posed by a turbulent macroeconomic environment. Early-stage companies have also seen a steep deceleration in growth, but have begun to show signs stabilization in 1H 2024
- The decline in ARR growth can be largely **attributed to a significant reduction in the acquisition of new logos**. Companies are finding it increasingly **challenging to secure new customers**, driven by tighter budgets, heightened competition, pricing pressures, and a more selective buying environment
- Net dollar retention over the same period has been similarly impacted, **falling from peak levels of ~120-130% from 2017-2019 to ~110% in 1H 2024**. This decline has been driven **primarily by weakened customer expansion attainment** paired with steady churn rates



Source: Quarterly operating and financial data from the companies included

The State of Private SaaS | Impact to efficiency

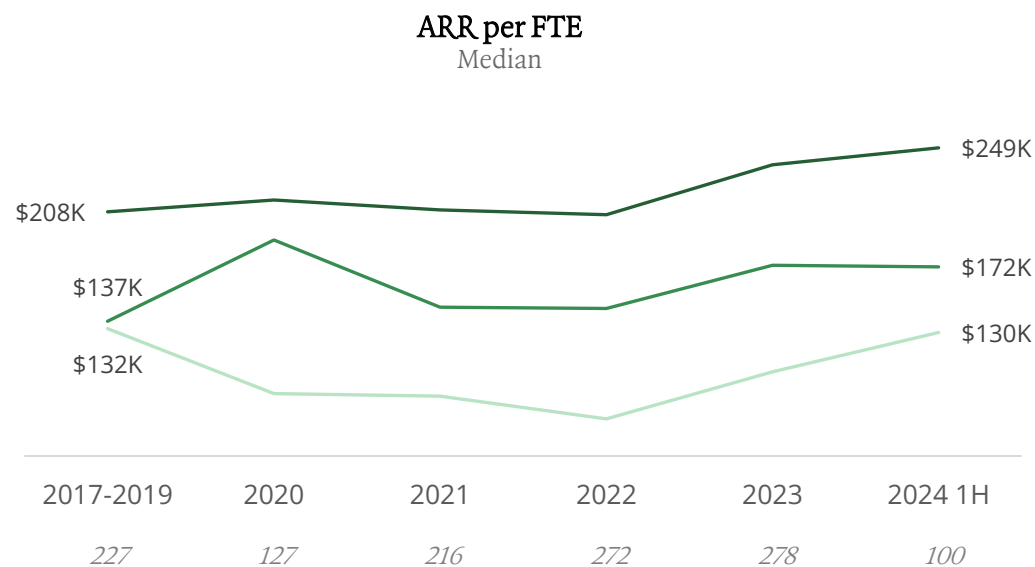
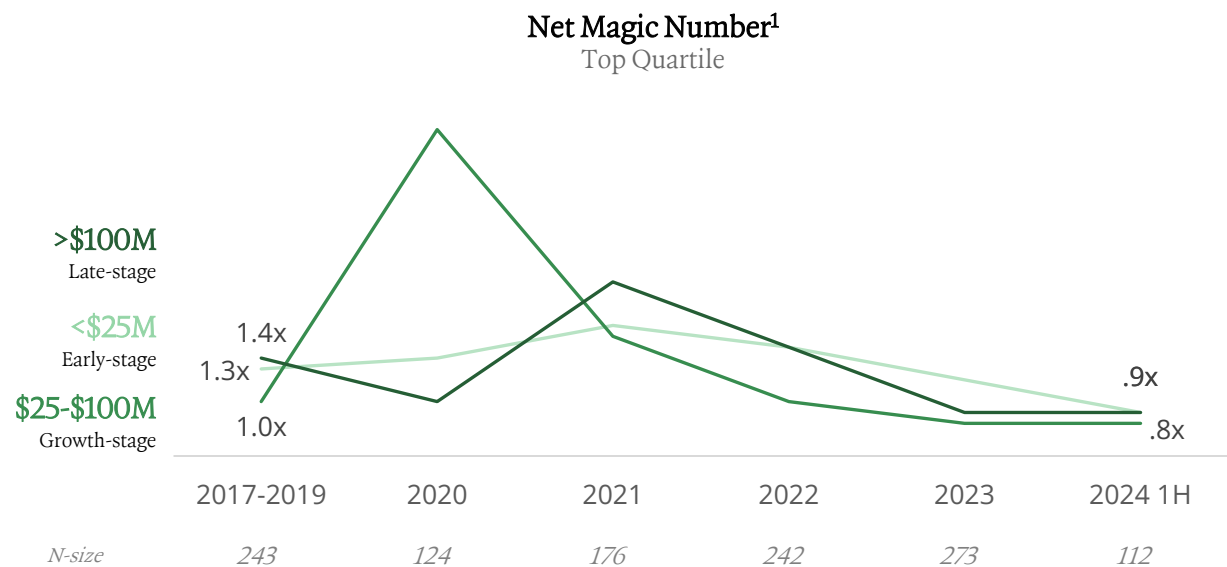
- As topline growth becomes more challenging to achieve, **companies have increasingly prioritized bottom-line preservation, leading to consistent improvements in FCF margins over the past eight quarters**
- However, **Rule of 40 remained stagnant over the same period**, indicating that **companies have not adjusted costs quickly or significantly enough to counterbalance the slowdown in growth**
- While FCF margins have improved, burn multiples have not yet returned to historical baselines for most companies. **Early-stage and growth-stage burn multiples remain significantly higher than historical norms**



Source: Quarterly operating and financial data from the companies included
1 We typically only begin to place real weight against FCF Margin and Rule of 40 for companies with at least ~\$25M in ARR. The <\$25M companies have been excluded for this reason
2 Rule of 40 calculated as YoY ARR Growth + FCF Margin

The State of Private SaaS | Impact to productivity

- Go-to-market efficiency and productivity, as measured by **net magic number¹**, has significantly deteriorated as selling SaaS tools became increasingly **difficult** in the current environment. Magic number performance has steadily dropped over the past eight quarters, with the metric now stabilizing below **1.0x** for the first time, marking the lowest point in sales efficiency in years and highlighting a serious challenge in achieving efficient growth
- While **headcount productivity (ARR per FTE)** has improved, there has also been a decline in **headcount efficiency (i.e., an increase in OpEx per FTE)** during the same period. While there is typically a **lag between adjustments in operating spend and efficiency gains**, the increase in OpEx per FTE may also be driven by a combination of inflationary pressures, competitive compensation programs, and a relative increase in spend on strategic initiatives, including artificial intelligence.



Source: Quarterly operating and financial data from the companies included
1 Net magic number = Current quarter net new ARR / prior quarter S&M OpEx

Revisiting our Predictions

Prediction

1 The rise of usage-based pricing

Usage-based pricing (UBP) will soon become more prevalent, especially as products focus on driving efficiency for organizations and will need to price based on value rather than seats

2 Expansion contributes increasingly to growth

As we see more companies powered by product-led growth (PLG) or leverage bottom-up sales motions, expansion will continue to become a larger portion of new ARR going forward

3 The Rule of 60

Rule of 40 may soon become the Rule of 60 with the introduction of AI, which will bring about significant operational efficiencies to organizations and potential to unlock new growth vectors

4 Profitability before IPO

Best-in-class companies will hit profitability earlier in their lifecycles (likely before going public), versus historical precedent of most SaaS companies being un-profitable at IPO

Status

Usage-based pricing models are inherently exposed to higher levels of volatility—particularly in times of macroeconomic turbulence. While we have not yet measured an increase in UBP, we expect the surge of AI-native products to accelerate this shift as companies increasingly prefer charging based on consumption or outcome over subscription fees.

Companies have been increasingly reliant on expansion for driving topline growth over the last eight quarters as new logo velocity has slowed. We expect expansion to continue being an important growth driver through 2024, but we may see slight new logo recovery in the coming months.

While FCF margins improved, the slowdown in ARR growth has contributed to stagnation in Rule of 40. We still believe generative AI holds promise for driving growth and positioning companies closer to Rule of 60, but we do not think we are likely to see this impact for another 12+ months.

Top-quartile SaaS companies are now achieving positive FCF margins around ~\$150M in ARR, typically about five years after reaching \$10M ARR. With the IPO market much slower than in previous years, it's too early to tell if this trend will continue across the broader market.



Key Insights

The ICONIQ Growth Enterprise Five

The ICONIQ Growth Enterprise Five outlines the key performance benchmarks that companies should consider targeting to achieve sustained growth and efficiency, serving as a potential north star to elevate to best-in-class performance. Given the current environment, we expect that **median benchmarks shown here will be more realistic for companies to target in 2024**, but have included top quartile as reference for “best in class” performance regardless of time period.

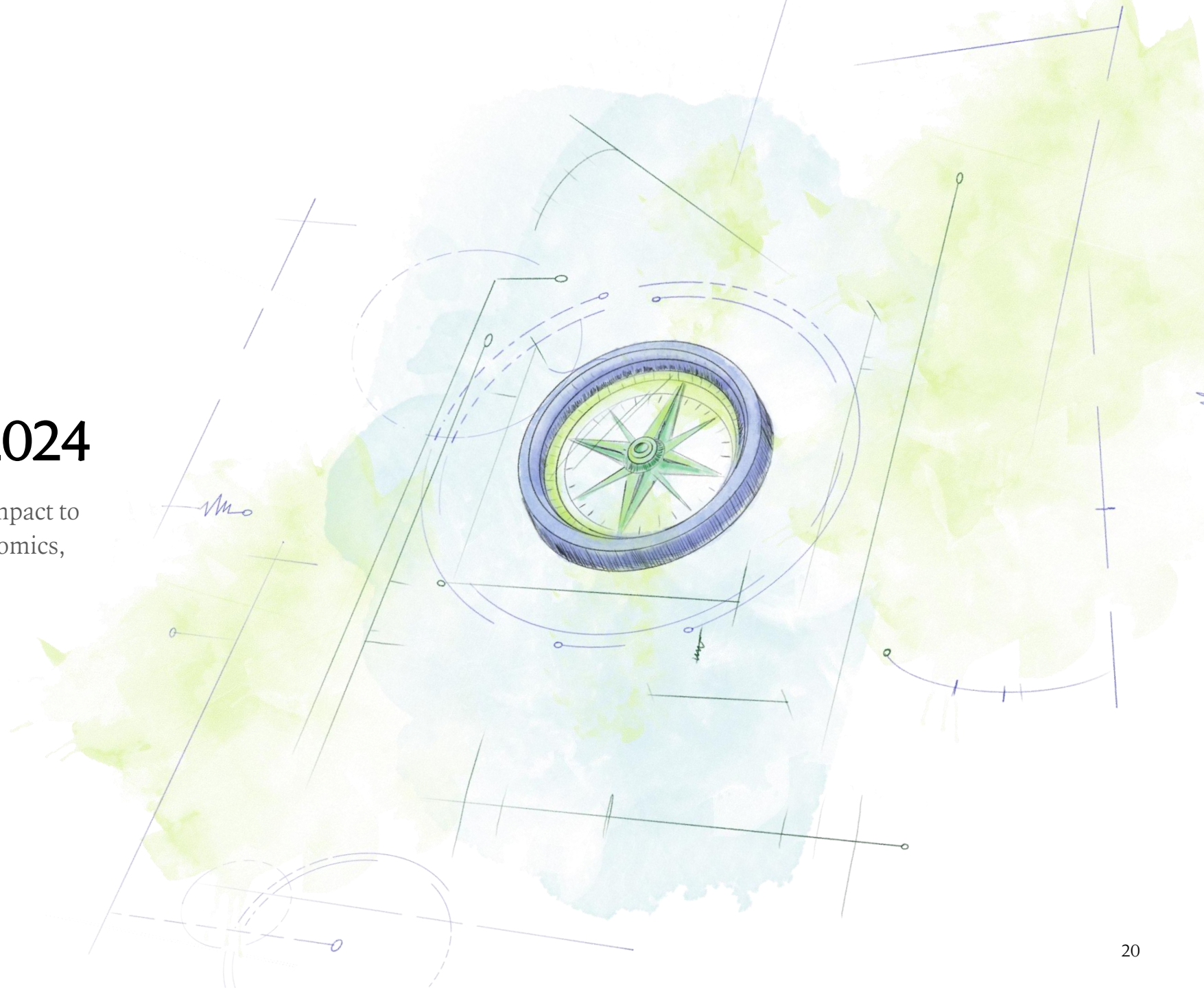
Median and Top Quartile Performance by ARR Range		<\$10M	\$10-25M	\$25-\$50M	\$50-\$100M	\$100-\$200M	>\$200M
1	YoY ARR Growth <i>(EOP ARR – prior year EOP ARR) / prior year EOP ARR</i>	235% 485%	90% 160%	65% 110%	60% 90%	45% 65%	35% 55%
2	Net \$ Retention <i>1+ (expansion ARR - gross churn ARR) / average (BOP ARR + EOP ARR)</i>	105% 125%	105% 120%	105% 115%	110% 120%	110% 120%	110% 115%
3	Rule of 40 <i>YoY ARR growth + FCF margin¹</i>	Less Relevant ³	Less Relevant ³	0% 55%	20% 60%	25% 55%	40% 55%
4	Net Magic Number <i>Current Q net new ARR / prior Q S&M OpEx²</i>	1.1x 2.1x	0.6x 1.3x	0.7x 1.2x	0.9x 1.4x	0.8x 1.2x	0.6x 1.1x
5	ARR per FTE <i>EOP ARR / EOP FTEs</i>	\$70K \$95K	\$130K \$155K	\$155K \$195K	\$170K \$210K	\$195K \$235K	\$250K \$310K

Source: Quarterly operating and financial data from the companies included
1 Alternative Rule of 40 calculations include YoY Revenue Growth and EBITDA Margin
2 Quarter of S&M OpEx utilized in magic number calculations generally should depend on a given company's sales cycle
3 We typically only begin to place real weight against Rule of 40 for companies with at least ~\$25M in ARR

PART 1

The State of SaaS in 2024

A look at the last four years in SaaS, including impact to top-line growth, go-to-market health, unit economics, and bottom-line efficiency



What's Included

PART 1 | Pages 22-35

The State of SaaS in 2024

We've observed that the evolving macro environment has presented substantial challenges for SaaS leadership teams. As leaders strive to adapt and prioritize across various growth and efficiency levers, we believe understanding performance on a relative and real-time basis is critical.

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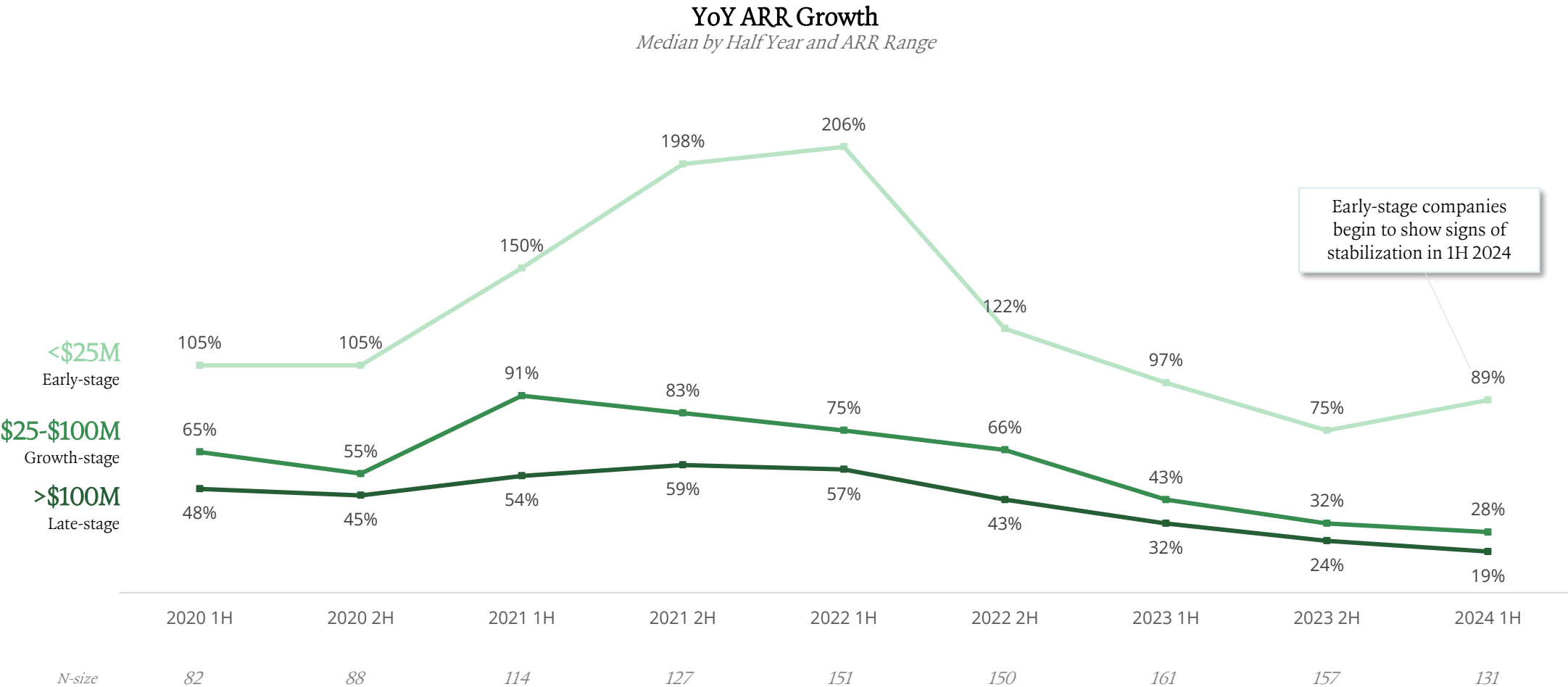
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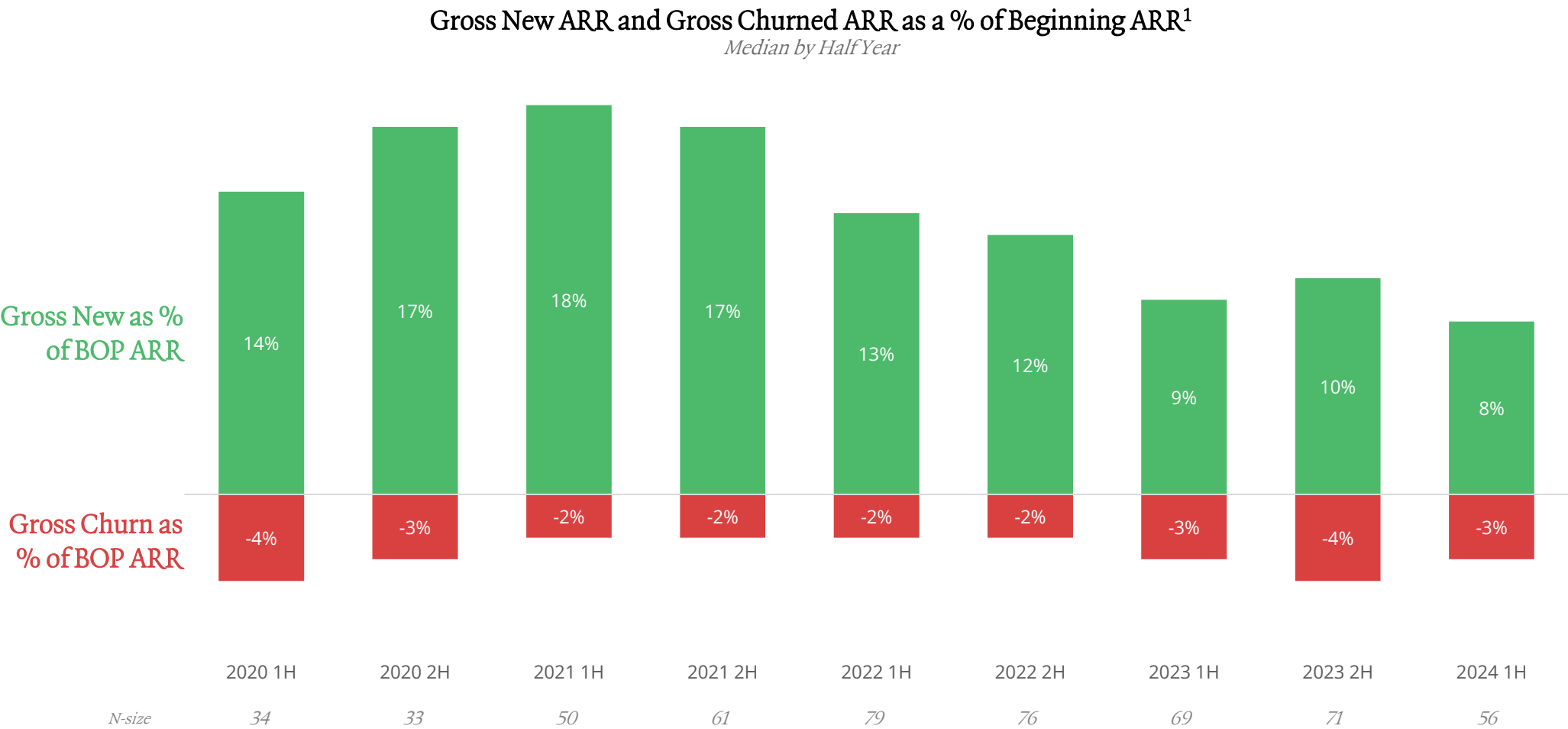
What is the composition of spend and how is the team scaling to support growth?
P58-67

In the first half of 2024, year-over-year ARR growth for growth-stage and late-stage SaaS companies reached its lowest point in the past eight quarters, likely reflecting ongoing challenges from a turbulent macroeconomic environment



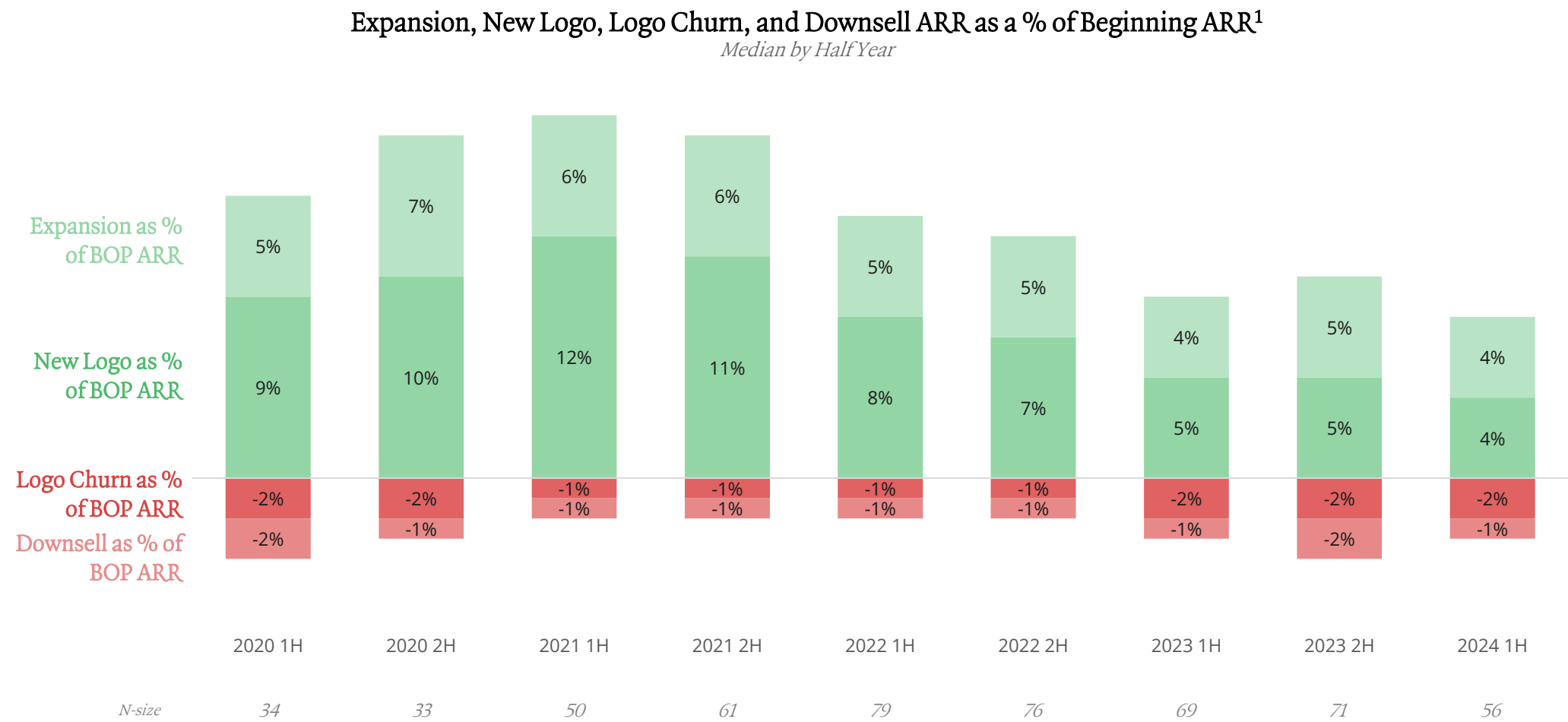
Source: Quarterly operating and financial data from the companies included

The decline in topline growth has been driven primarily by a deterioration in gross new ARR over the last two years. While churn has increased slightly since 2022, gross churn as a percent of beginning ARR remains in line with historical churn



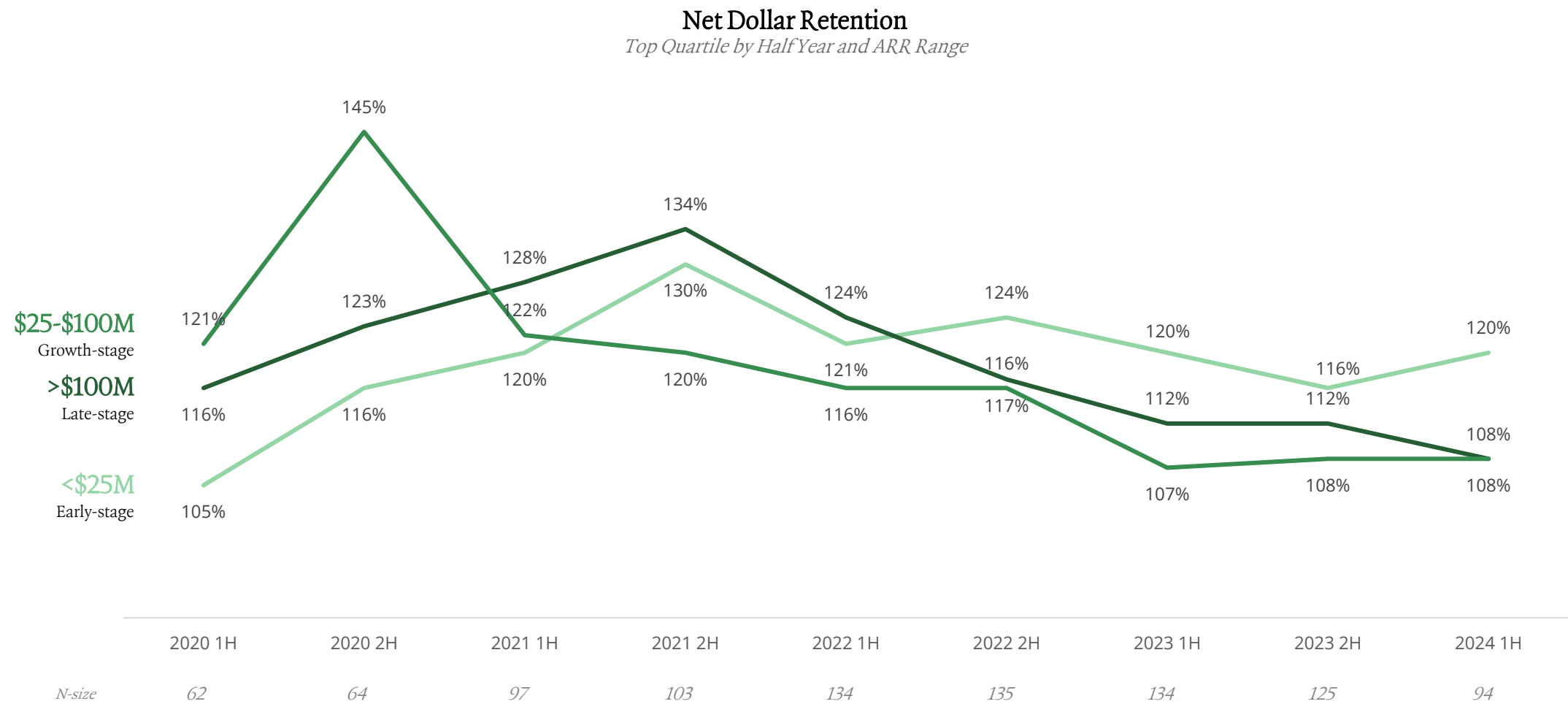
Source: Quarterly operating and financial data from the companies included
1 % of beginning ARR used to normalize the drivers of growth across companies of various sizes; BOP refers to Beginning of Period

The decline in gross new ARR is mainly due to a significant drop in new logo ARR, falling from peak levels of 10-12% to 4% of beginning period ARR in 1H 2024. While to a lesser extent, expansion growth has also declined in the same period



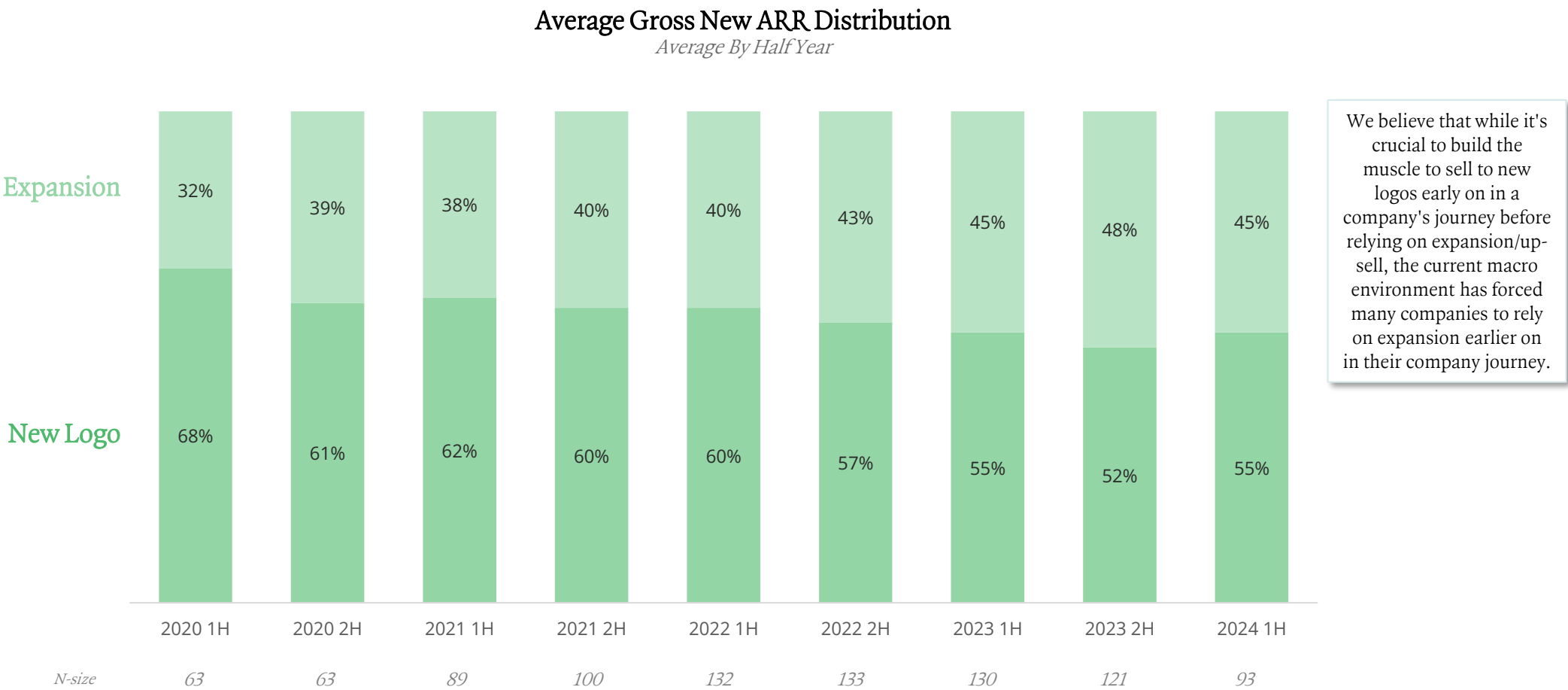
Source: Quarterly operating and financial data from the companies included
1 % of beginning ARR used to normalize the drivers of growth across companies of various sizes; BOP refers to Beginning of Period

As a byproduct of weakened expansion and heightened churn, the data shows that net dollar retention for growth-stage and late-stage companies has deteriorated over the past 8 quarters



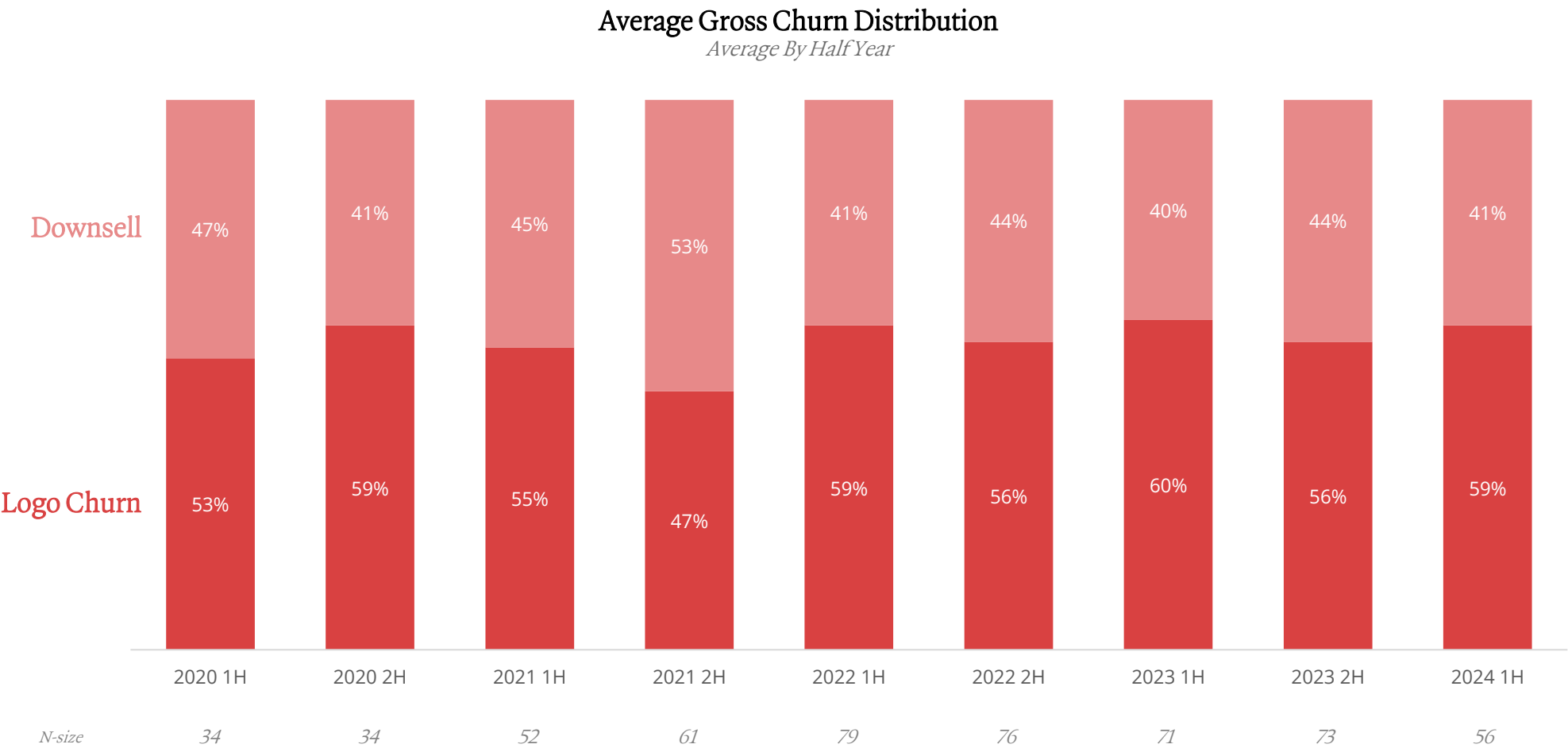
Source: Quarterly operating and financial data from the companies included

As securing new logos has become more difficult, companies have increasingly relied on expansion to drive growth. While in 1H 2024 there's been a slight uptick in new logo contribution, it's unclear if this trend will persist through the rest of the year



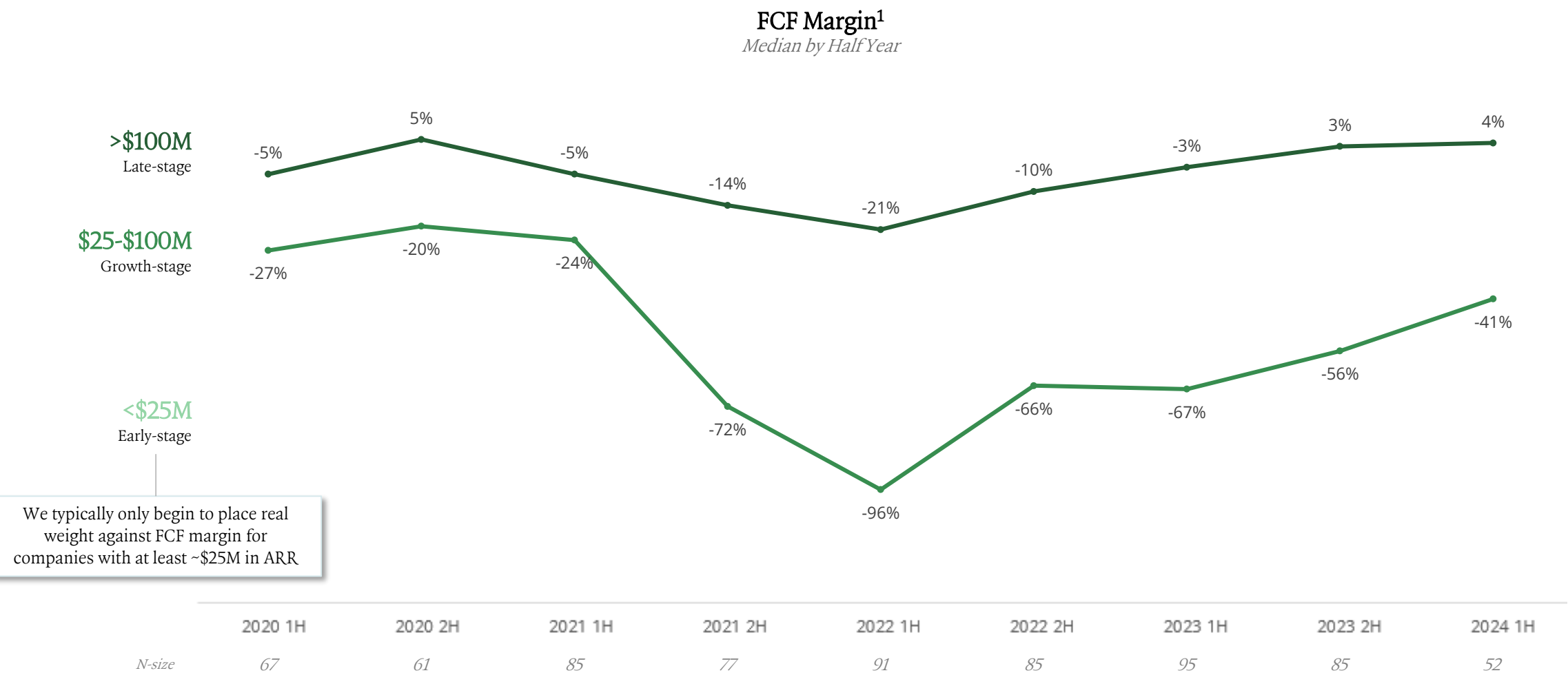
Source: Quarterly operating and financial data from the companies included

In parallel, logo churn continues to account for the majority of gross churn as we believe software buyers grow more selective, often consolidating tech stacks or eliminating non-essential tools in response to tighter budget constraints



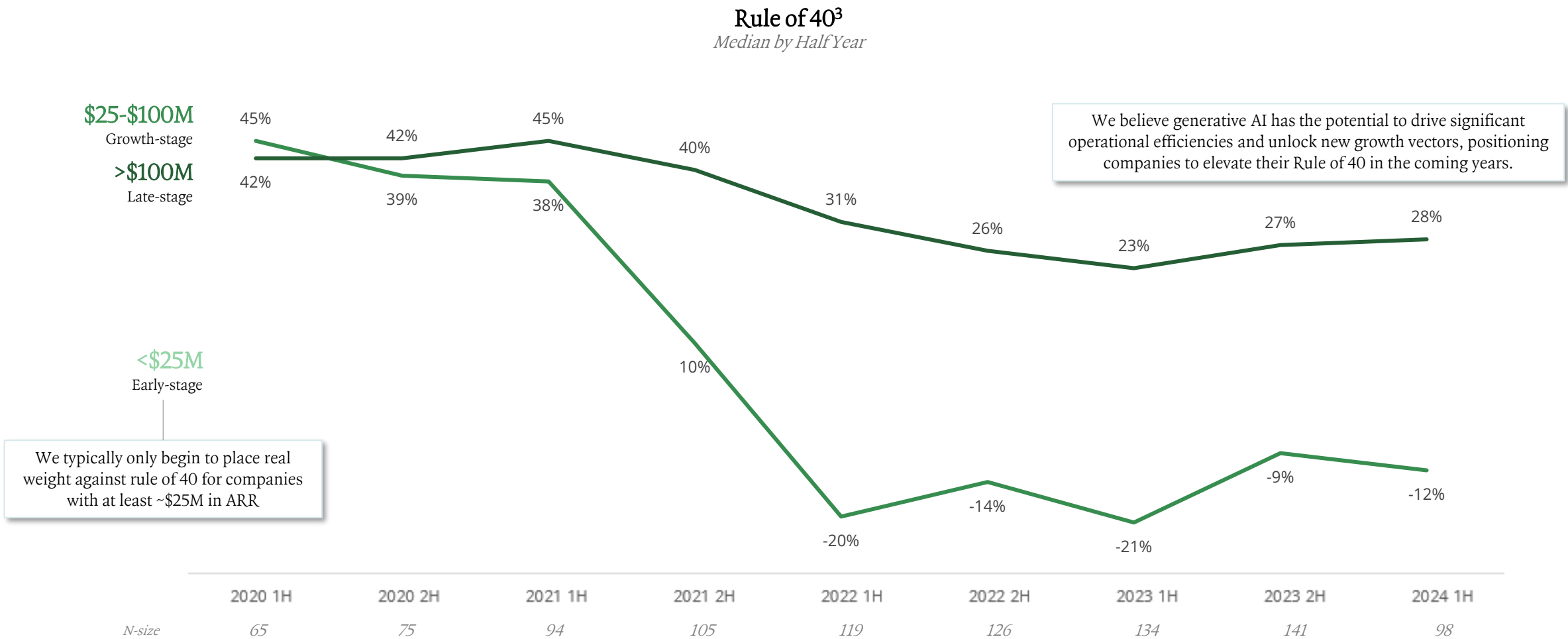
Source: Quarterly operating and financial data from the companies included

As growth becomes more challenging to achieve, companies have increasingly prioritized bottom-line preservation, leading to consistent improvements in FCF margins over the past eight quarters



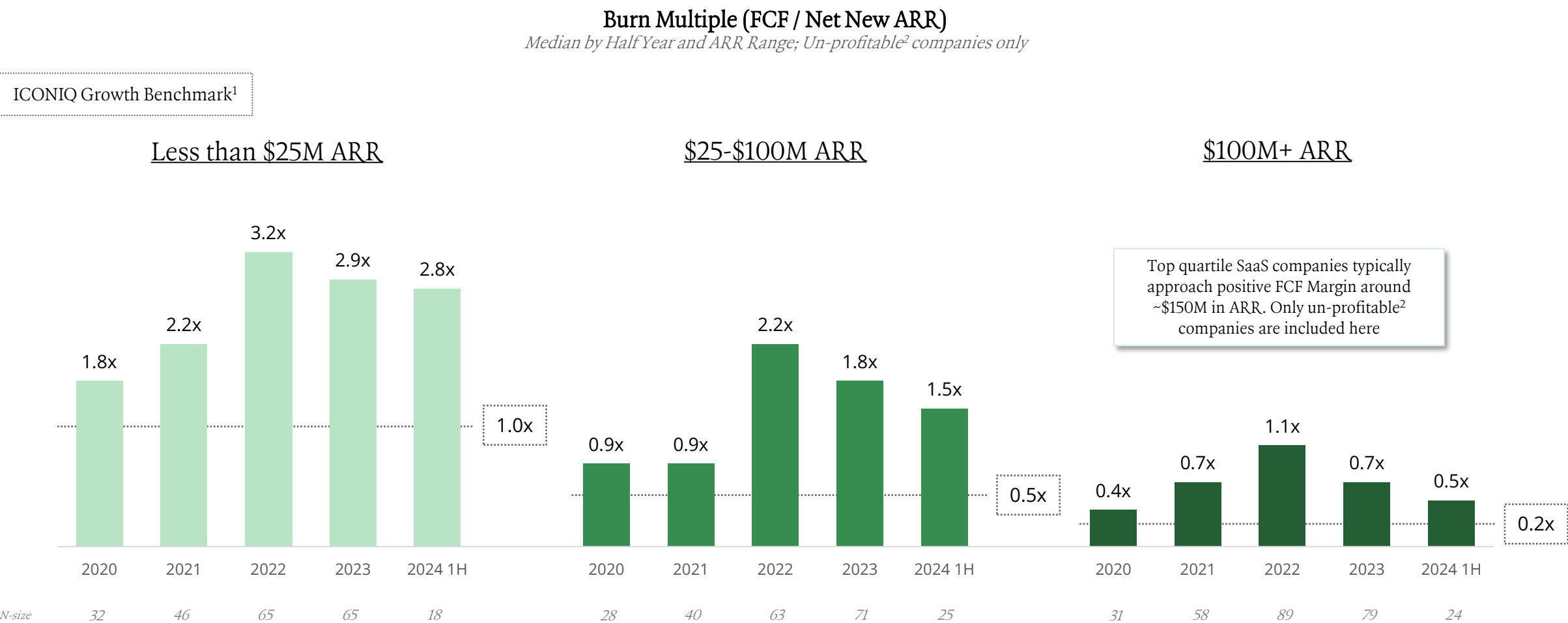
Source: Quarterly operating and financial data from the companies included
1 FCF as a % of Revenue

Looking at both growth and profitability¹ in tandem, the Rule of 40 has stayed relatively stable, albeit below the historical² median. While growth has slowed, it has been balanced by a shift towards bottom-line efficiency and improving FCF margins



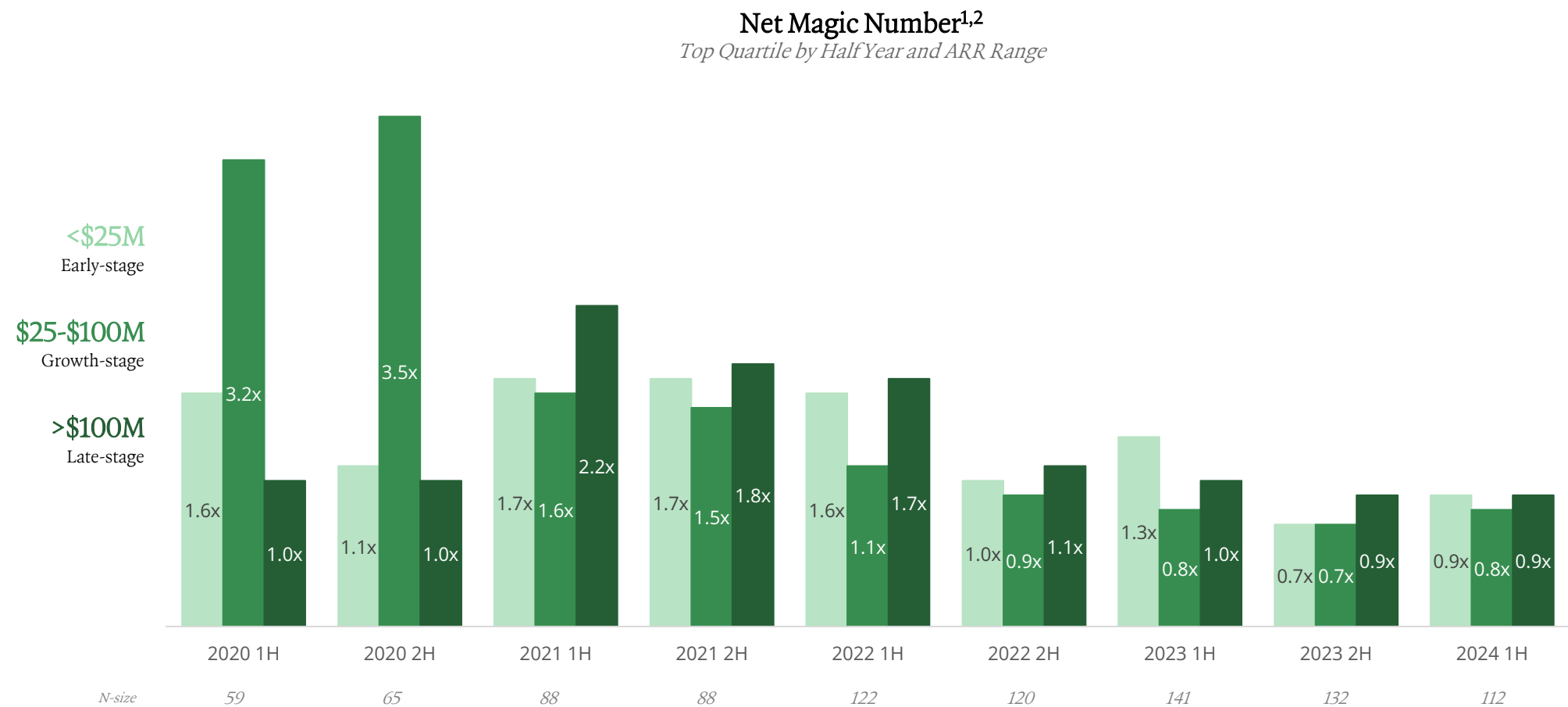
Source: Quarterly operating and financial data from the companies included
1 We use FCF Margin, which is calculated as (Operating Cash Flow – Capital Expenditures) / Revenue, as a measure of profitability
2 Refers to 2017-2019 and 2020 1H median levels of ~40%
3 Rule of 40 calculated as YoY ARR Growth + FCF Margin

Burn multiples are gradually improving but have not yet returned to historical norms for most SaaS companies. However, as net new ARR growth has decelerated, declining burn multiple suggests companies are regaining control over cash burn



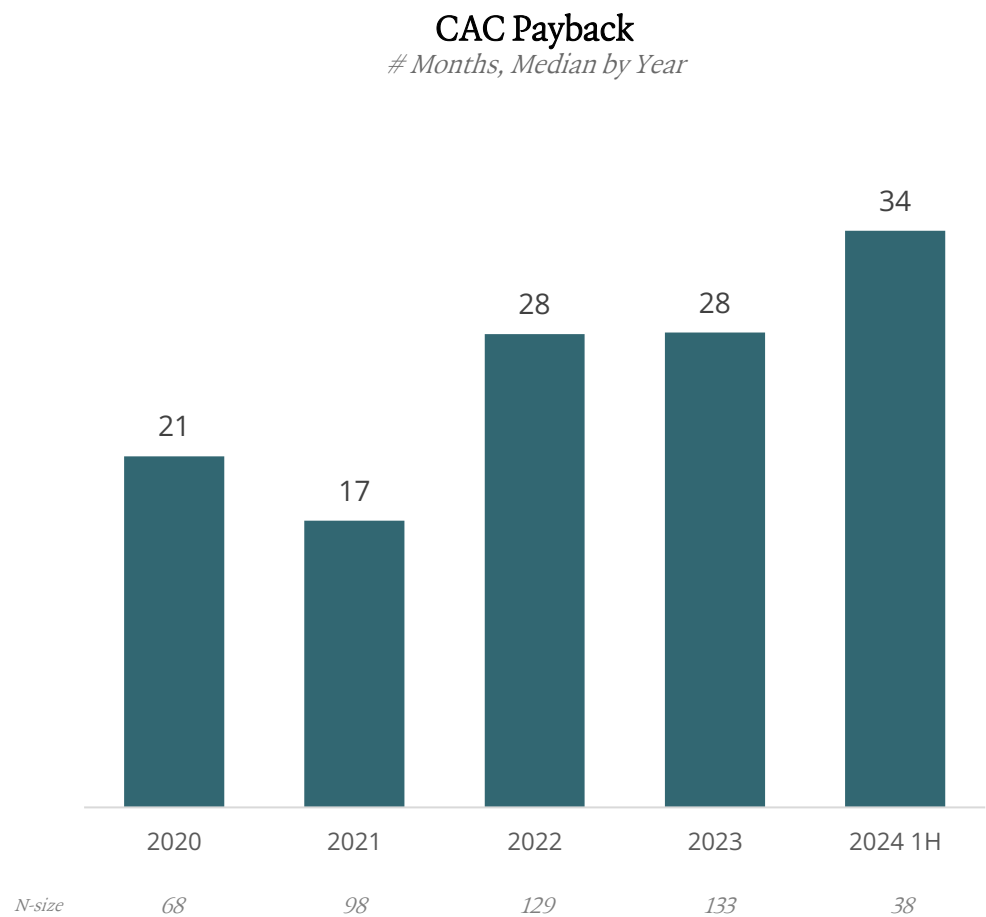
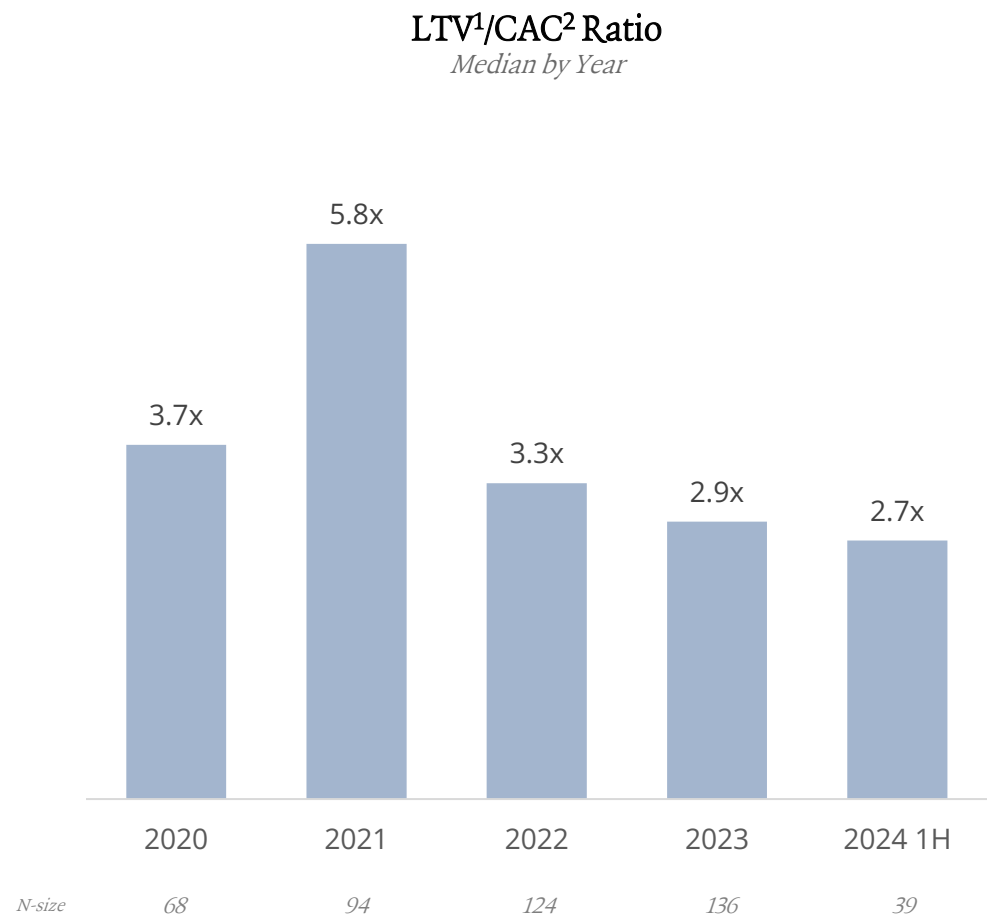
Source: Quarterly operating and financial data from the companies included
1 Based on historical top quartile burn multiples by ARR Range
2 Includes companies with negative FCF Margin

In terms of sales efficiency, net magic number shows no signs of improvement across all scale buckets, underscoring the headwinds SaaS companies continue to face in driving net new ARR growth



Source: Quarterly operating and financial data from the companies included
1 Net magic number calculated as current quarter net new ARR / prior quarter S&M OpEx
2 Quarter of S&M OpEx utilized in a company's individual magic number calculation should depend on that company's sales cycle

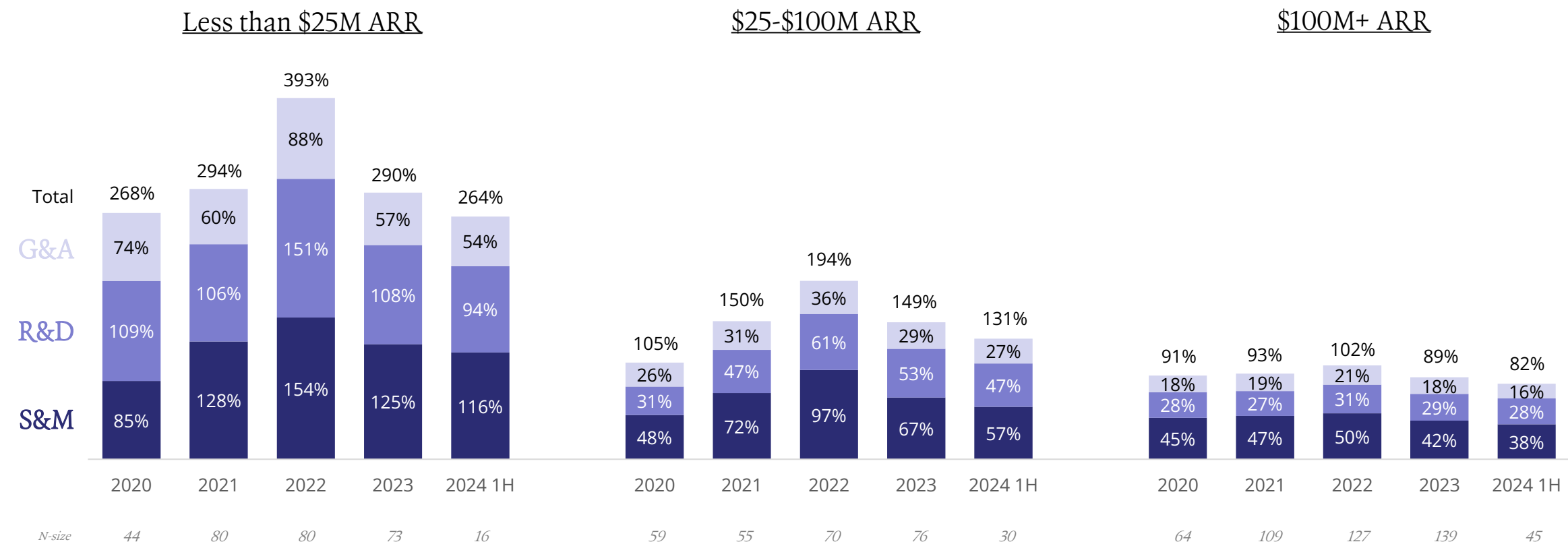
Customer acquisition remains challenging in 1H 2024, with median LTV/CAC still below ~3x and CAC payback extending past 30 months, highlighting the increased cost and effort required to secure and retain customers in the current market



Source: Quarterly operating and financial data from the companies included
1 ARPU x Gross Margin / Customer Churn Rate
2 S&M Expense / Gross New Customers

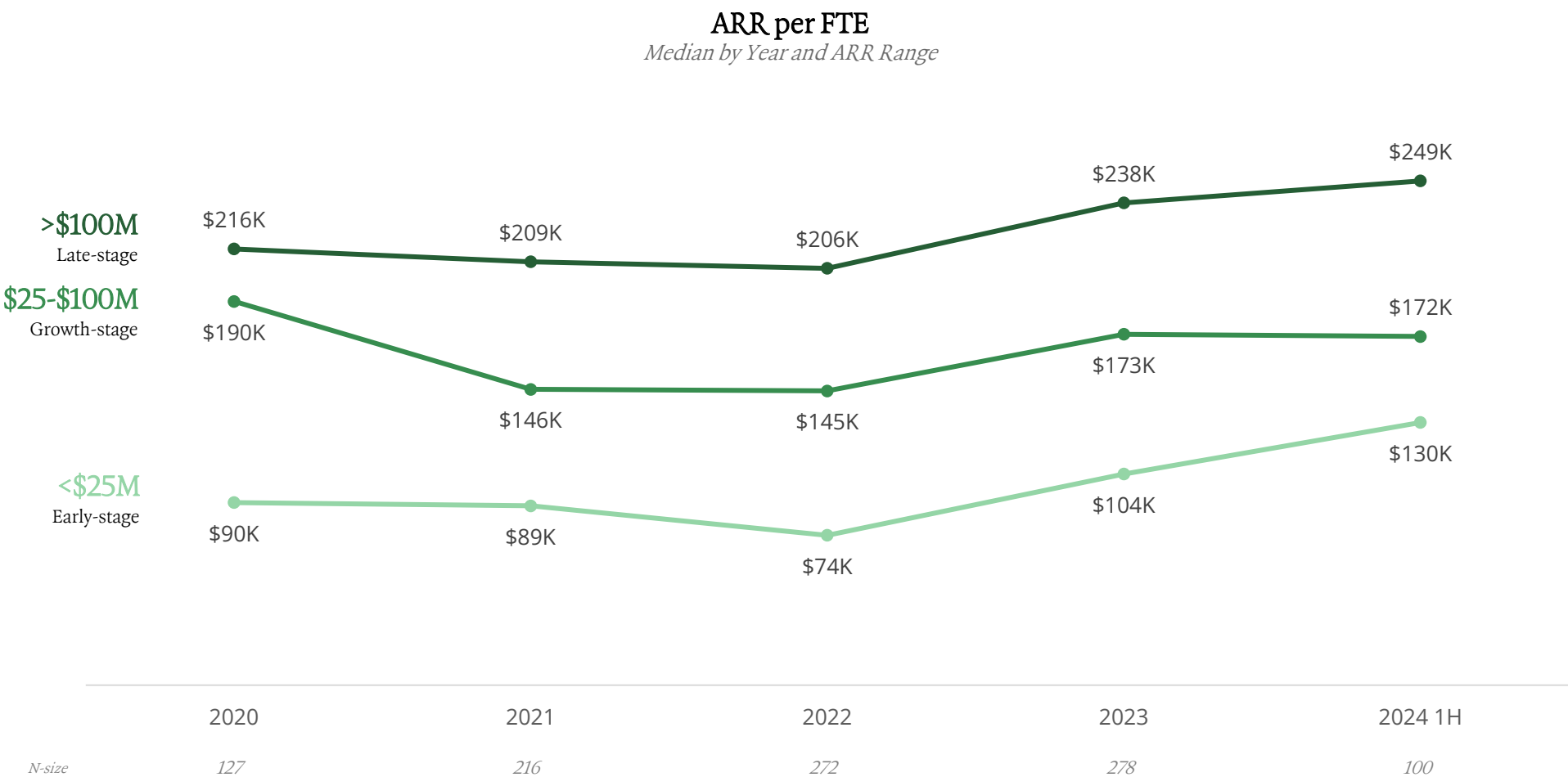
Over the past two years, SaaS companies have worked to significantly manage costs, and while some are now looking to re-ignite growth via thoughtful increases in spend¹, many remain in an era of austerity

OpEx as a % of Revenue by Type
Average by Year and ARR Range



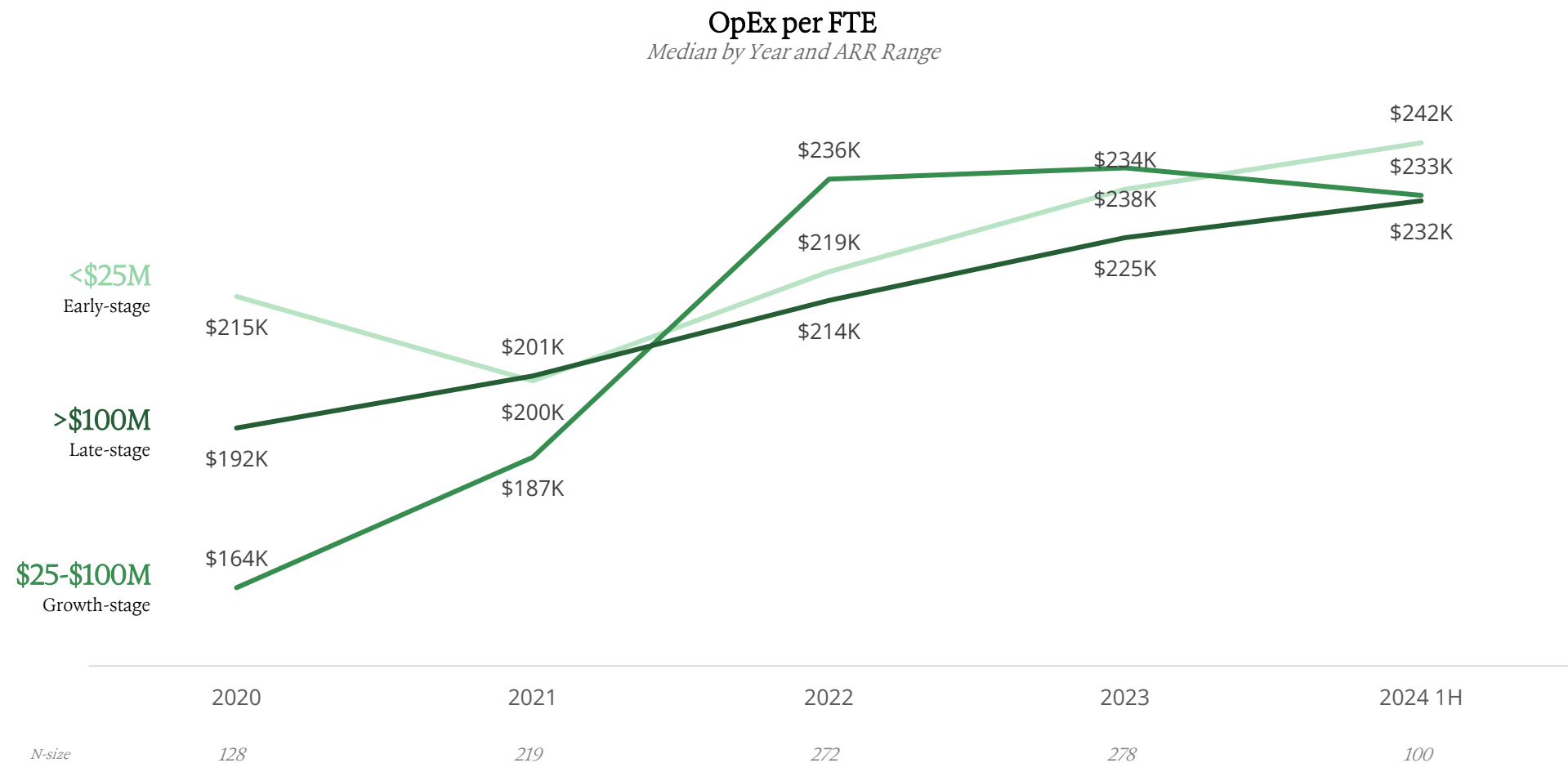
Source: Quarterly operating and financial data from the companies included
¹ ICONIQ Growth Analytics Q2 2024 Recap (only available to ICONIQ Growth Portfolio Companies)

Despite declining ARR growth rates, ARR per FTE continued to improve, suggesting that strategic RIFs and performance management measures might have led to sustained productivity gains, rather than just a short-term boost from FTE reductions



Source: Quarterly operating and financial data from the companies included

While employee productivity has improved, there has also been a decline in headcount efficiency (i.e., an increase in OpEx per FTE) during the same period



Source: Quarterly operating and financial data from the companies included

PART 2

The Evolution of SaaS Companies

Insights aggregated from over a decade's worth of operating and financial data, including how SaaS companies perform against key performance indicators as they scale and goalposts for what we believe to be “best-in-class” performance.



What's Included

PART 1 | Pages 22-35

The State of SaaS in 2024

The evolving macro environment has presented substantial challenges for SaaS leadership teams. As leaders strive to adapt and prioritize across various growth and efficiency levers, we believe understanding performance on a relative and real-time basis is critical.

To that end, Part 1 delves into how SaaS performance has changed over the last four years, offering a detailed look into the impact of recent market dynamics, the resulting shifts in strategy leaders have made, and how these drivers have played out in the operational and financial profiles of SaaS companies.

How have the last four years impacted performance against key top-line SaaS metrics?
P22-27

How have companies adapted bottom-line efficiency in response to growth headwinds?
P28-32

How are these changes impacting spend, team productivity, and organizational efficiency?
P33-35

PART 2 | Pages 36-67

The Evolution of SaaS Companies

In tandem with the latest trends in SaaS, we believe operators should orient their long-term performance towards the broader perspective of how software businesses evolve as they scale, regardless of time period.

Part 2 details insights aggregated from ICONIQ Growth's proprietary database of over a decade's worth of SaaS operating and financial data. This includes key performance indicators as companies scale from \$10M to post-IPO and recommends goalposts for what we believe to be "best-in-class" performance at each of these mile markers.

How quickly and consistently do companies grow?
P39-40

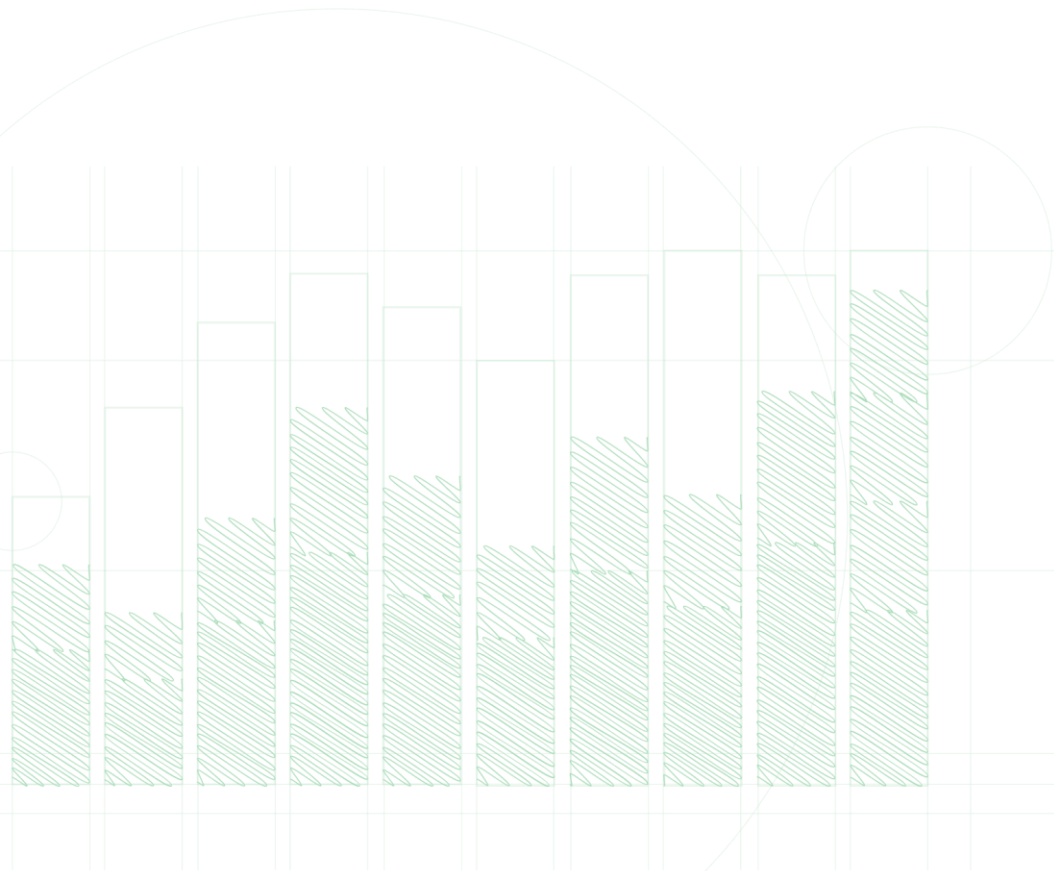
What are the drivers of this growth?
P41-44

How well is ARR being retained?
P46-48

What is the spend associated with this growth?
P52-53

What is the composition of spend and how is the team scaling to support growth?
P58-67

The data behind scaling a B2B SaaS business



Topline Health

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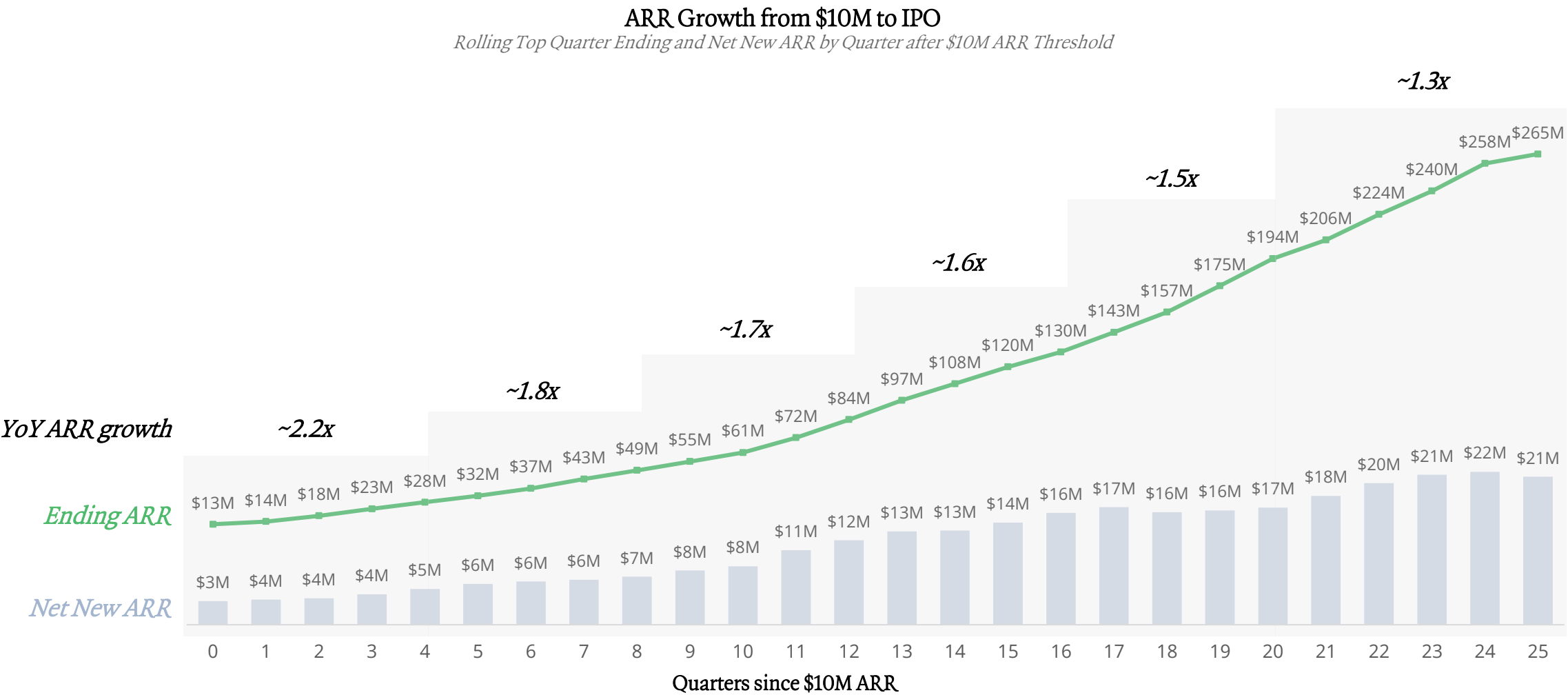
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Spend Profile

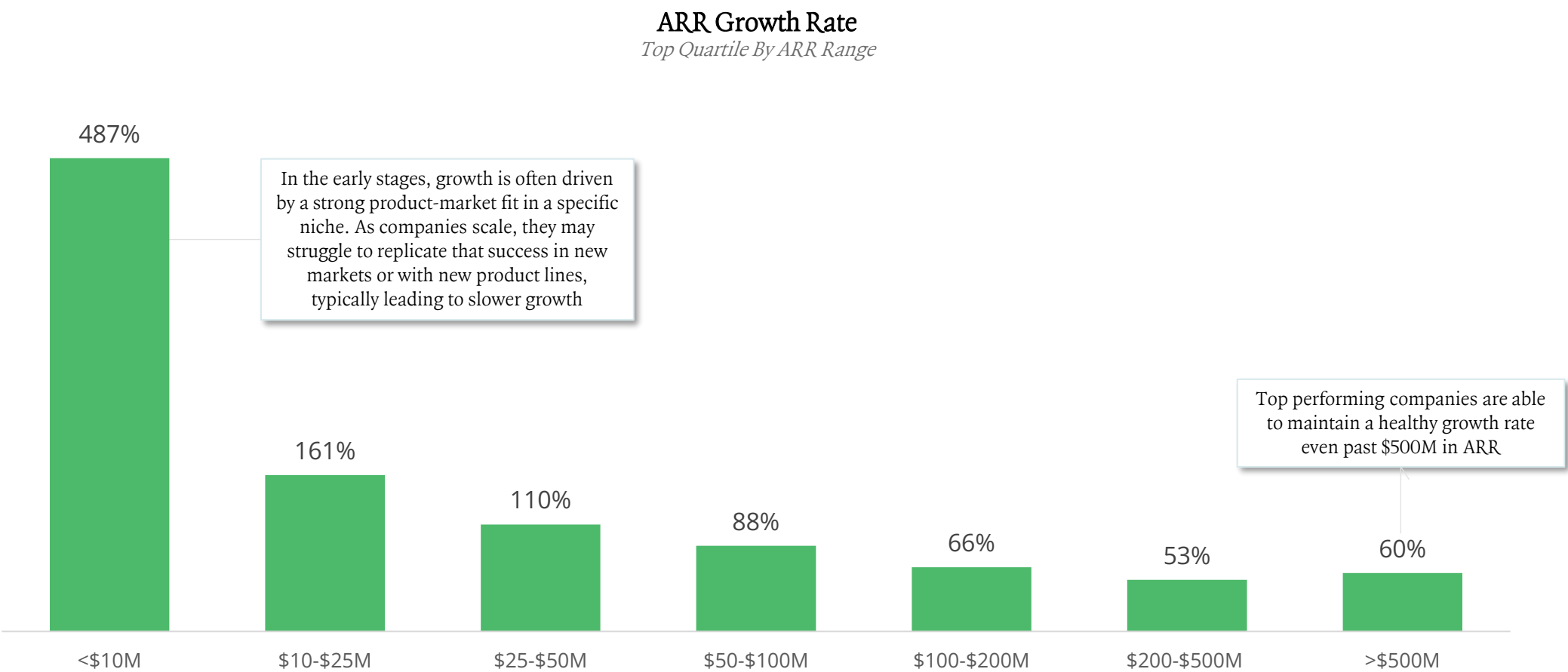
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SaaS companies with top performance in ARR growth typically grow 1.5-2x each year until reaching \$100M ARR, after which they generally maintain a year-over-year growth rate above ~30% through IPO



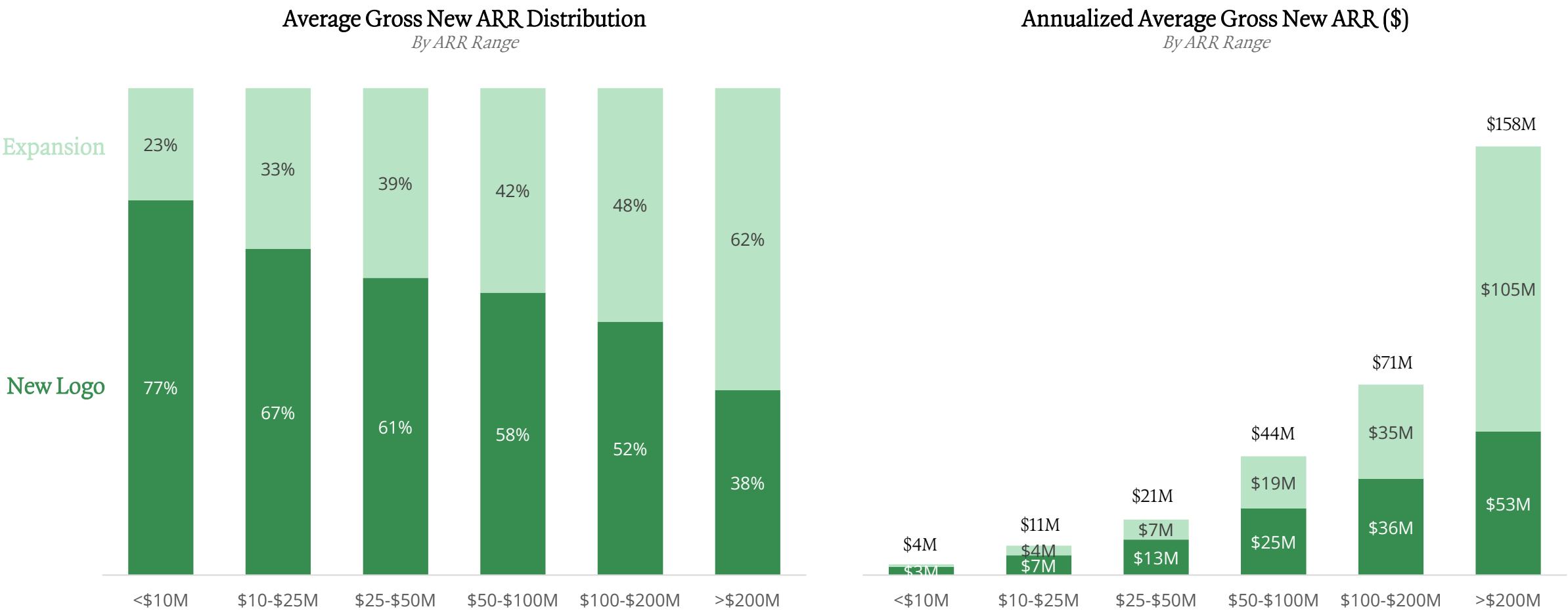
Source: Quarterly operating and financial data from the companies included (N-size: 1301)

Growth rates tend to decline as SaaS companies scale, typically driven by the challenge of achieving high percentage gains on a larger revenue base, market penetration limits, and the complexity of expanding an established customer base



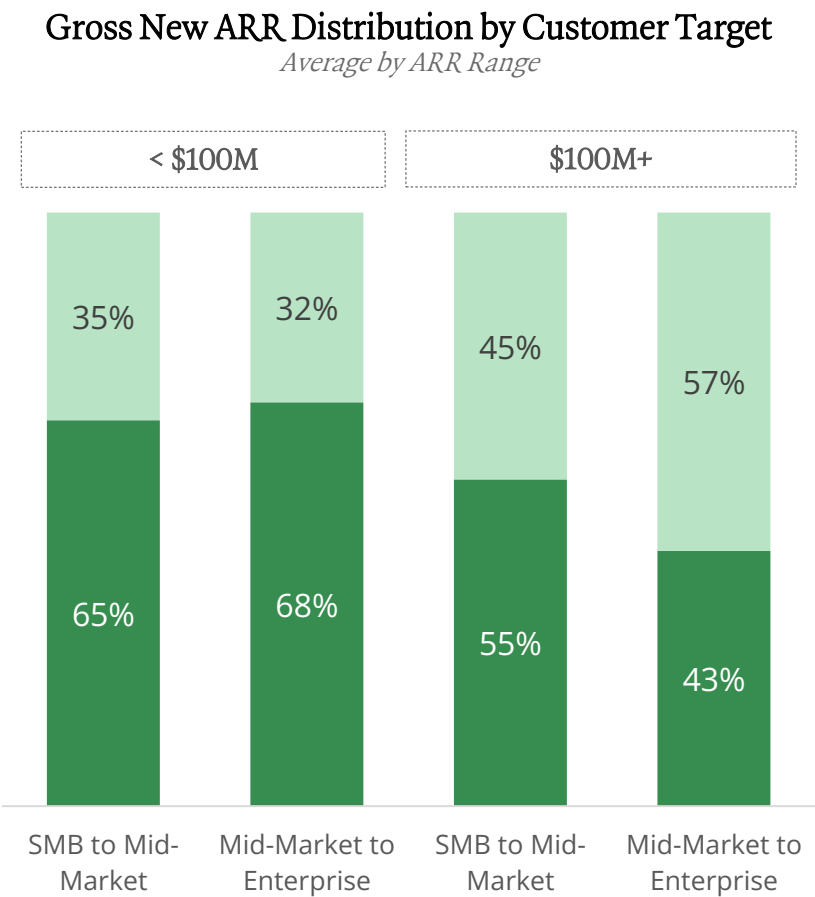
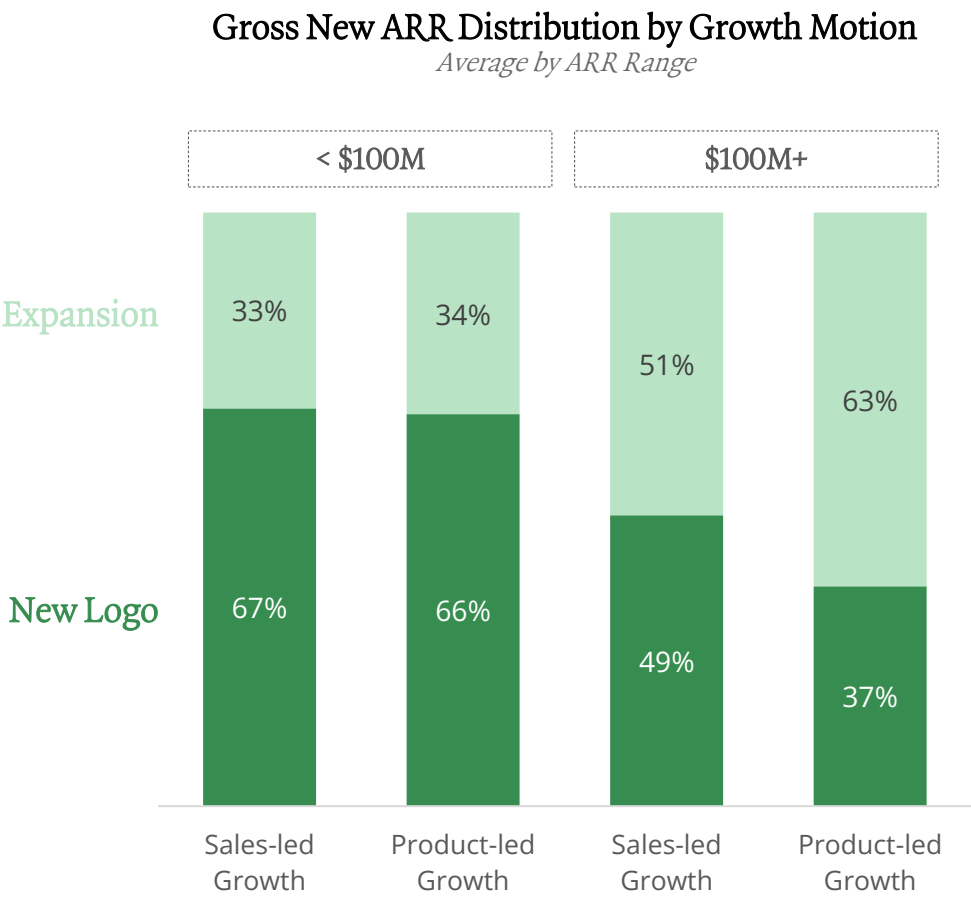
Source: Quarterly operating and financial data from the companies included (N-size: 1921)

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



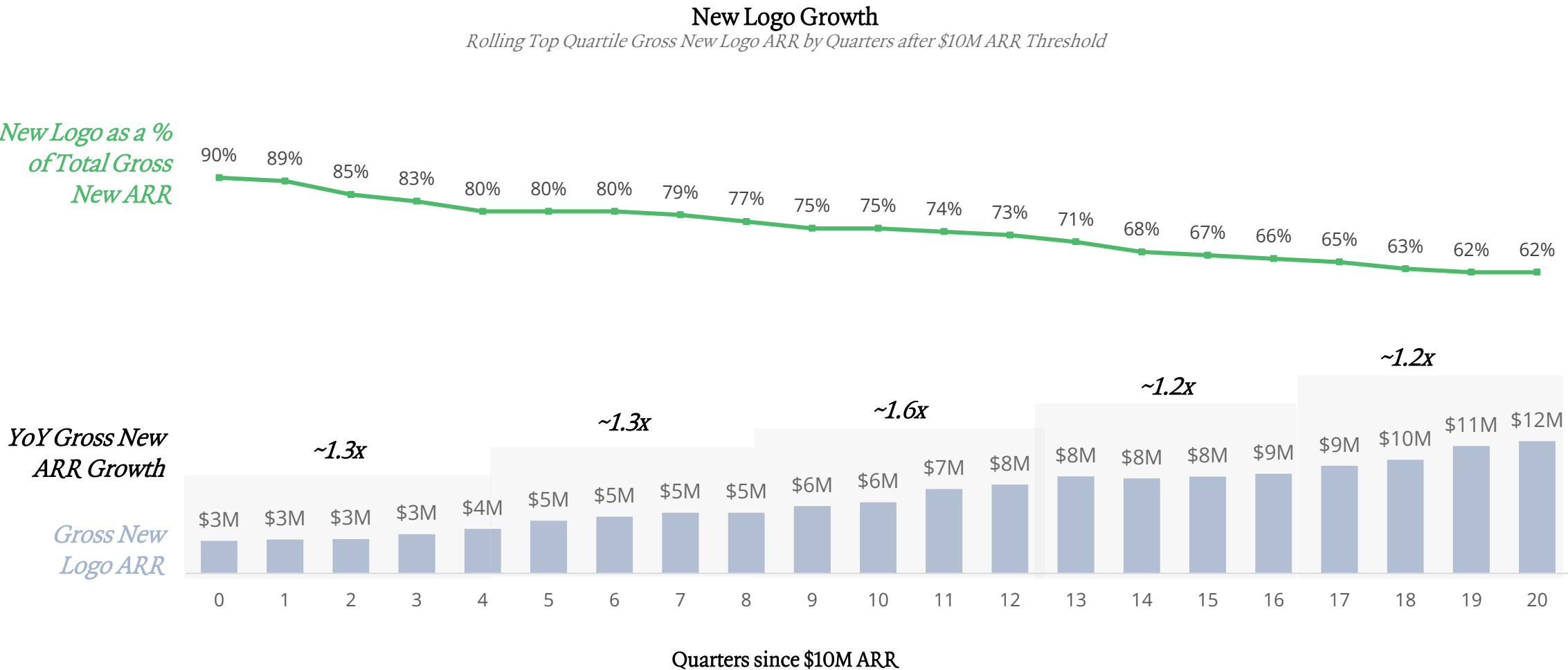
Source: Quarterly operating and financial data from the companies included (N-size: 1322)

Generally at the \$100M+ stage, growth drivers begin to vary based on GTM strategy, with PLG and enterprise-focused companies leaning more on customer expansion



Source: Quarterly operating and financial data from the companies included (N-size: 1312)

We observe that new logo growth in the earlier stages is a strong measure of product market fit and GTM scalability. Top-quartile companies are able to grow new logo ARR by 1.2x-1.6x as they scale past \$10M in ARR



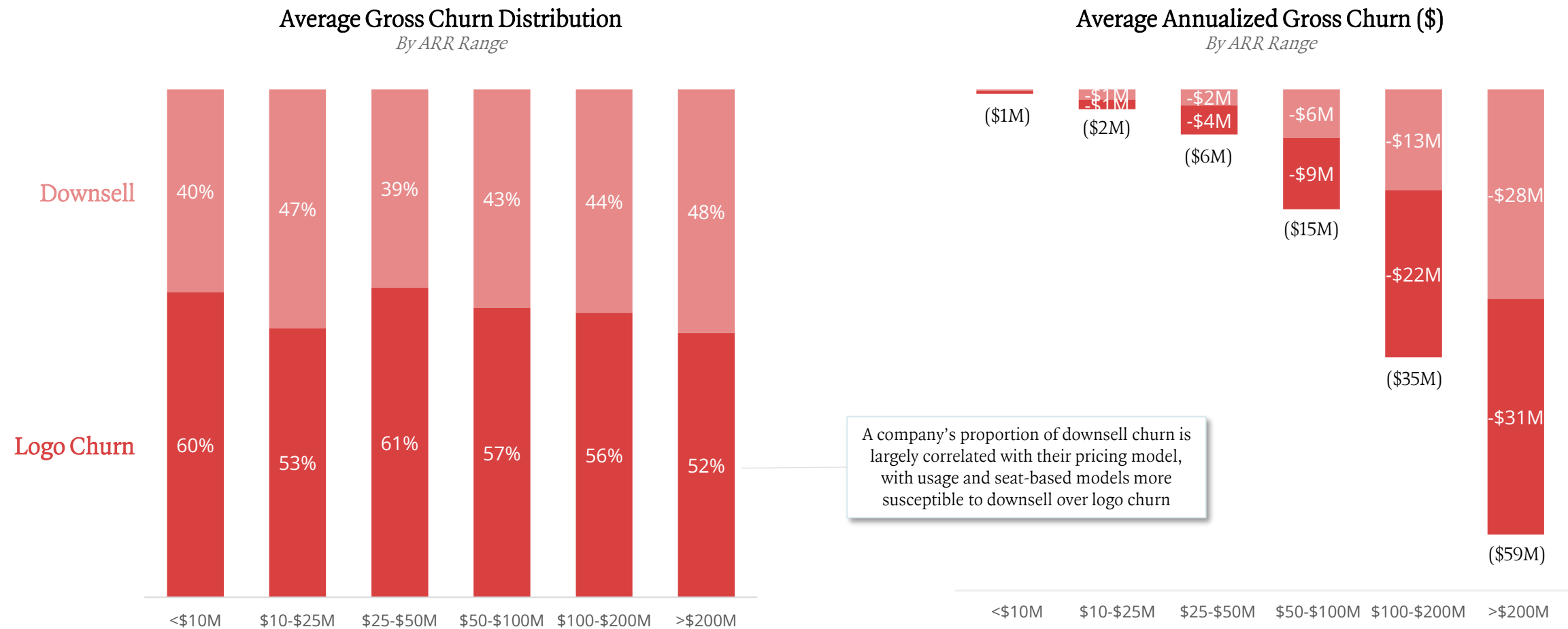
Source: Quarterly operating and financial data from the companies included (N-size: 773)

Another strong indicator of topline health is a company’s ability to move up-market when closing new logo deals. As top quartile SaaS companies scale, they are generally able to land bigger customers with higher average contract values



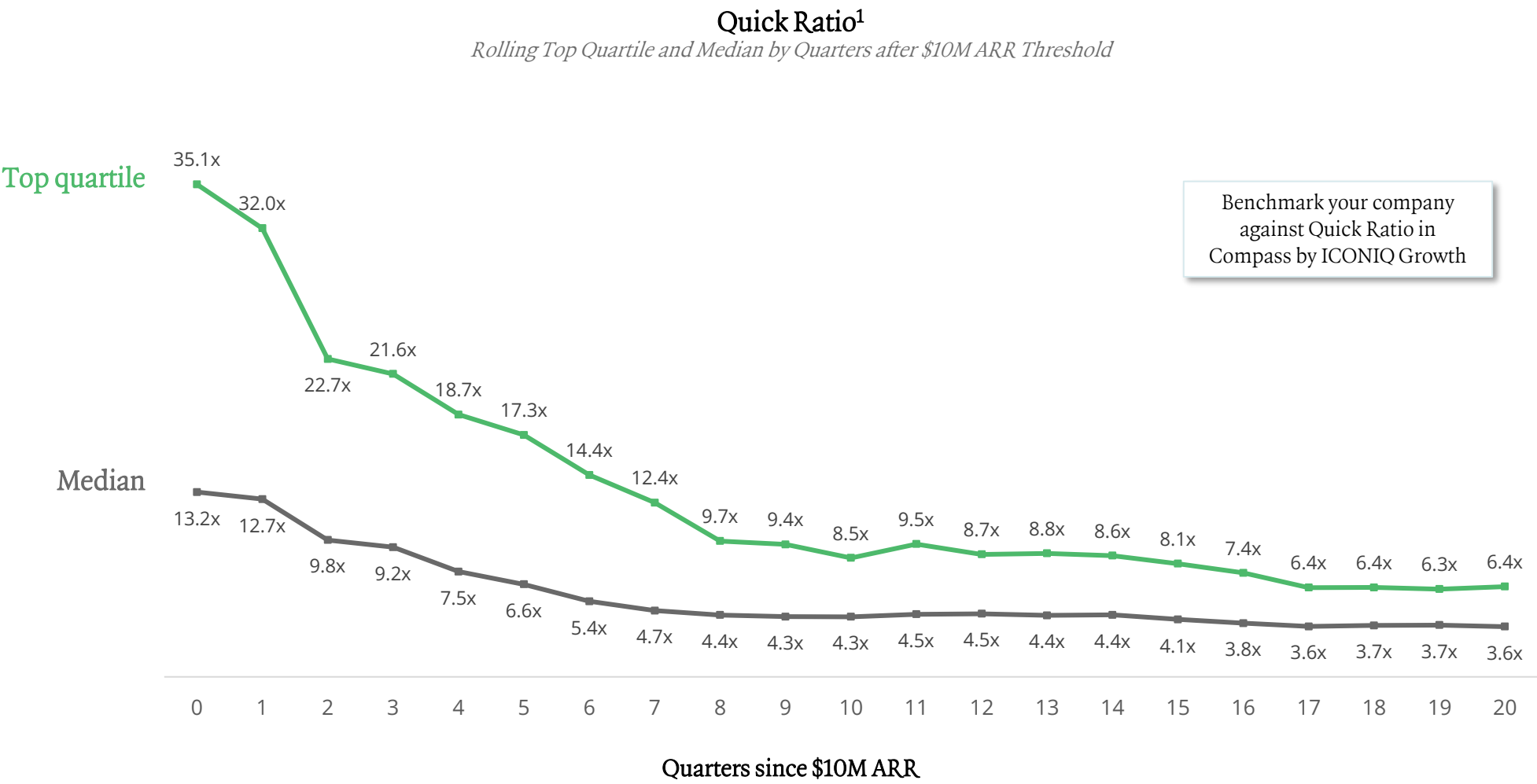
Source: Quarterly operating and financial data from the companies included, excluding Healthcare IT companies due to volatility and outliers in deal sizes (N-size: 1965)

Logo churn typically makes up the majority of gross churn with no significant variation by stage. If more companies shift towards usage-based pricing, we may begin to see downsell become a larger contributor to overall churn



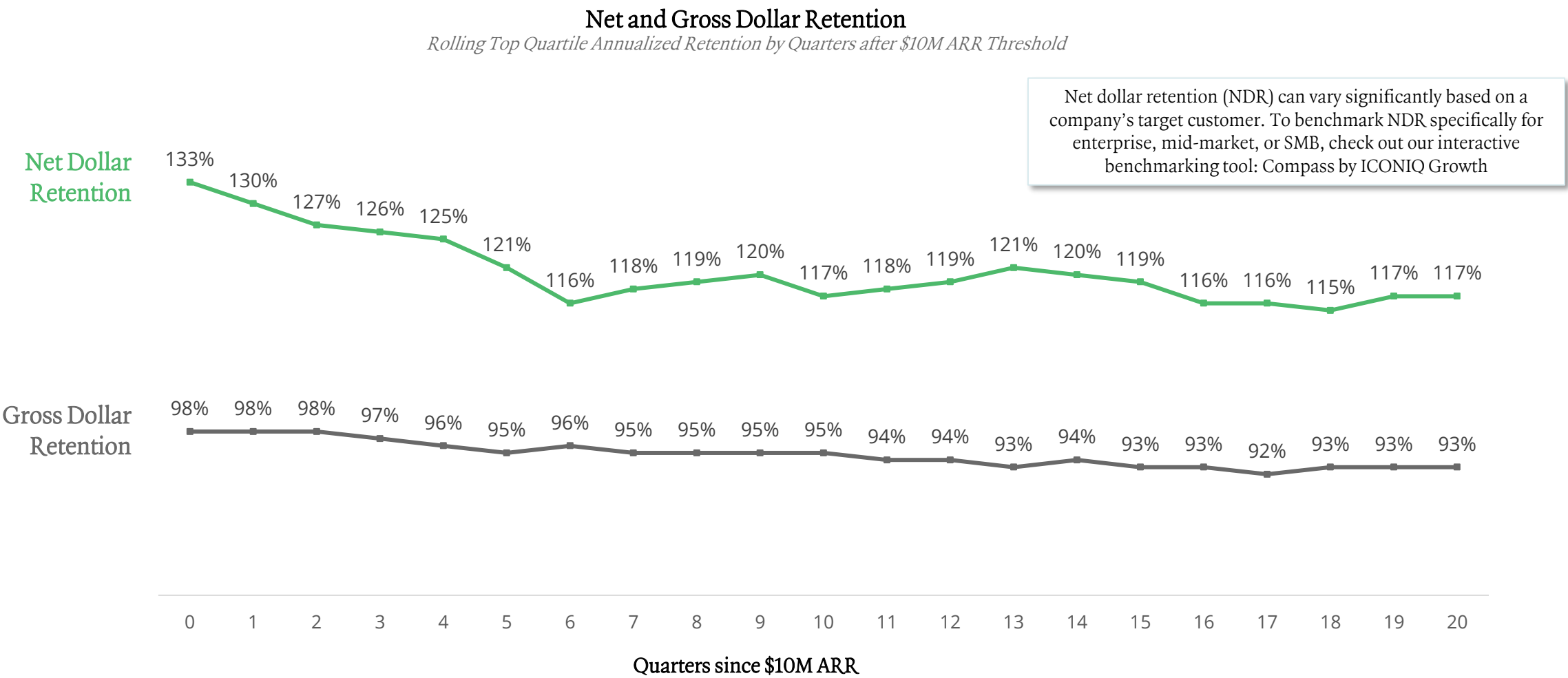
Source: Quarterly operating and financial data from the companies included (N-size: 696)

Quick ratio measures gross new ARR vs. gross churned ARR. As companies scale, quick ratio tends to decrease, however, top quartile SaaS companies are able to maintain a quick ratio above ~6x even after reaching \$100M ARR



Source: Quarterly operating and financial data from the companies included (N-size: 818)
1 Quick Ratio = Gross New ARR / Gross Churned ARR

Top quartile companies usually achieve +115% net dollar retention and ~95% gross dollar retention consistently once they have scaled past \$10M ARR

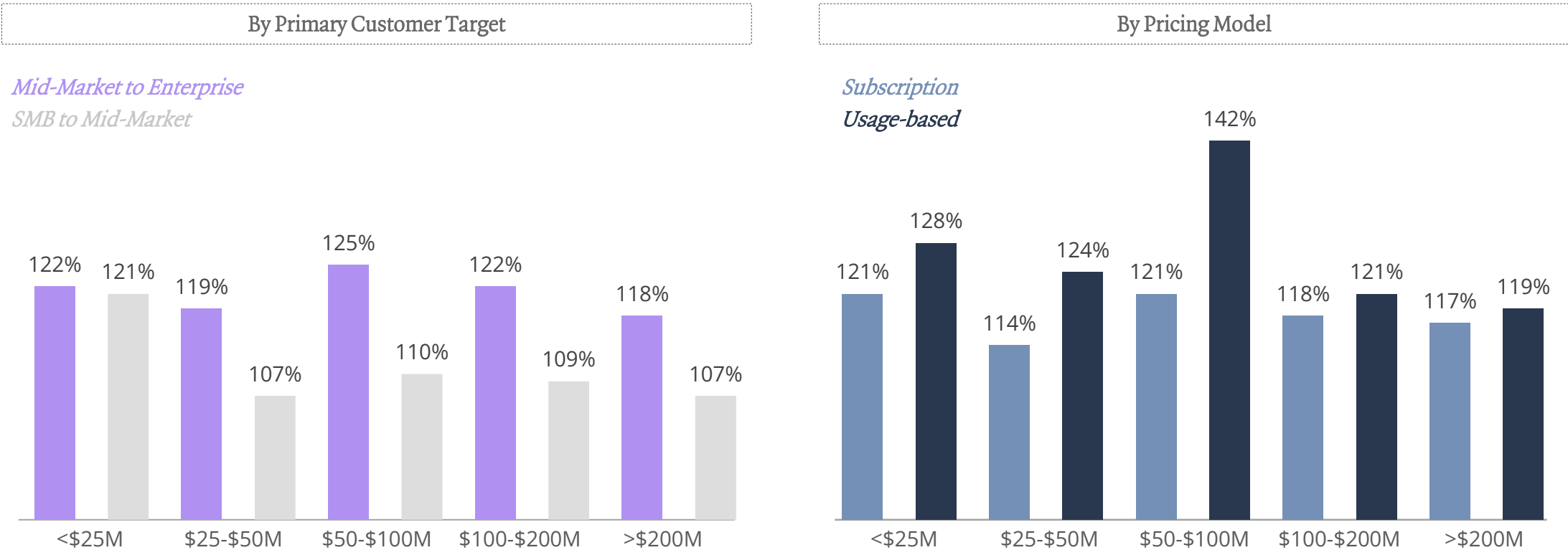


Source: Quarterly operating and financial data from the companies included (N-size: 769)

Companies targeting upper mid-market to enterprise and those that have a usage-based pricing model tend to maintain higher net dollar retention

Net Dollar Retention

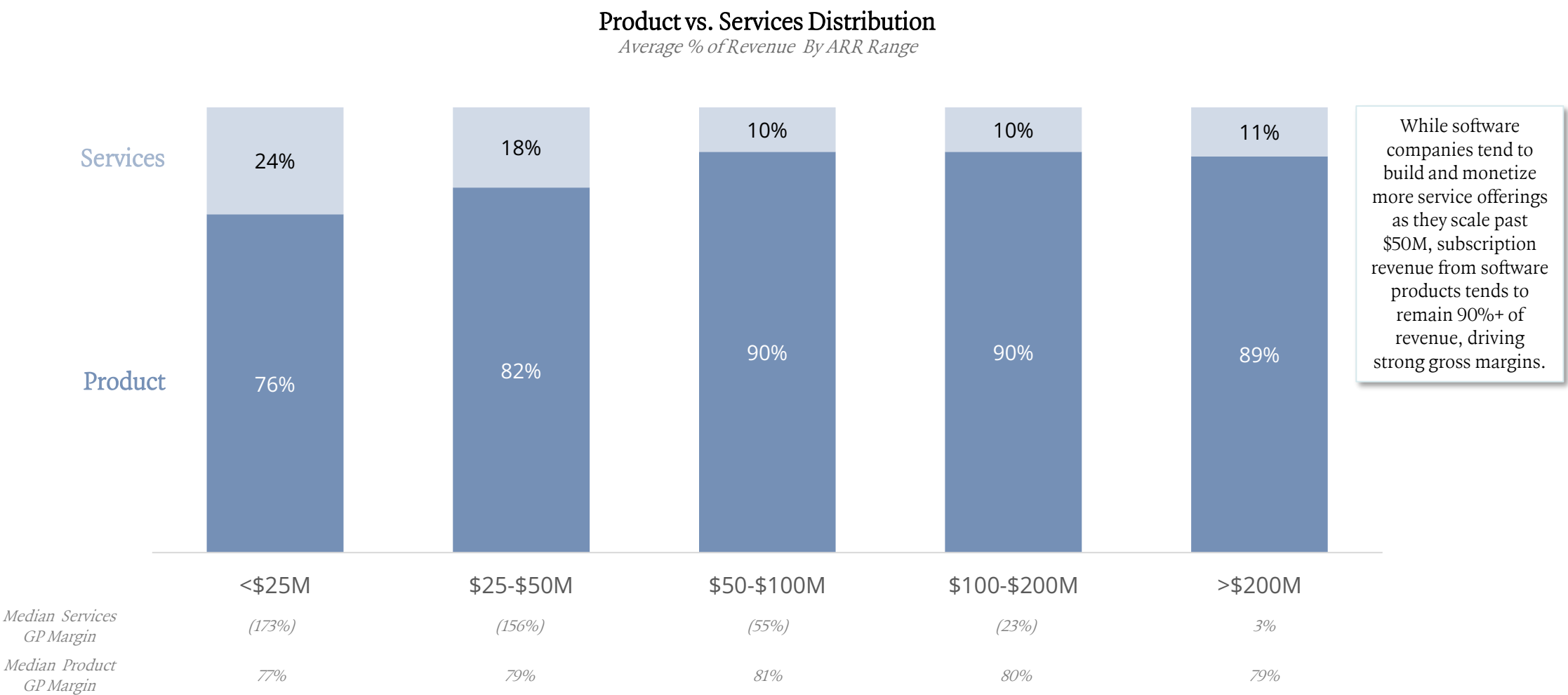
Top Quartile Annualized Retention by ARR Range



Although higher in Net Dollar Retention, we observe that usage-based pricing models are inherently exposed to higher levels of volatility in times of macroeconomic turbulence

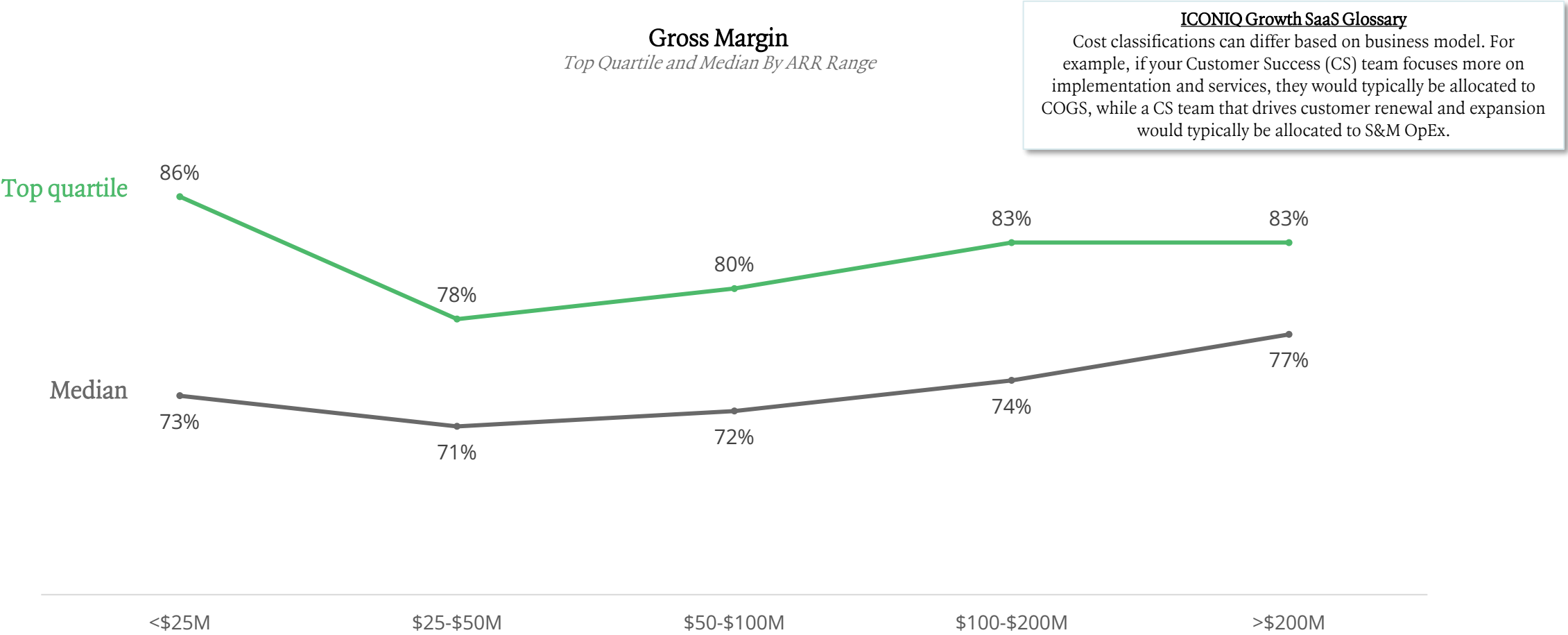
Source: Quarterly operating and financial data from the companies included (N-size: 1205)

On average, 80-90% of revenue is driven by products vs. services, with product comprising a greater portion of total revenue as SaaS companies scale



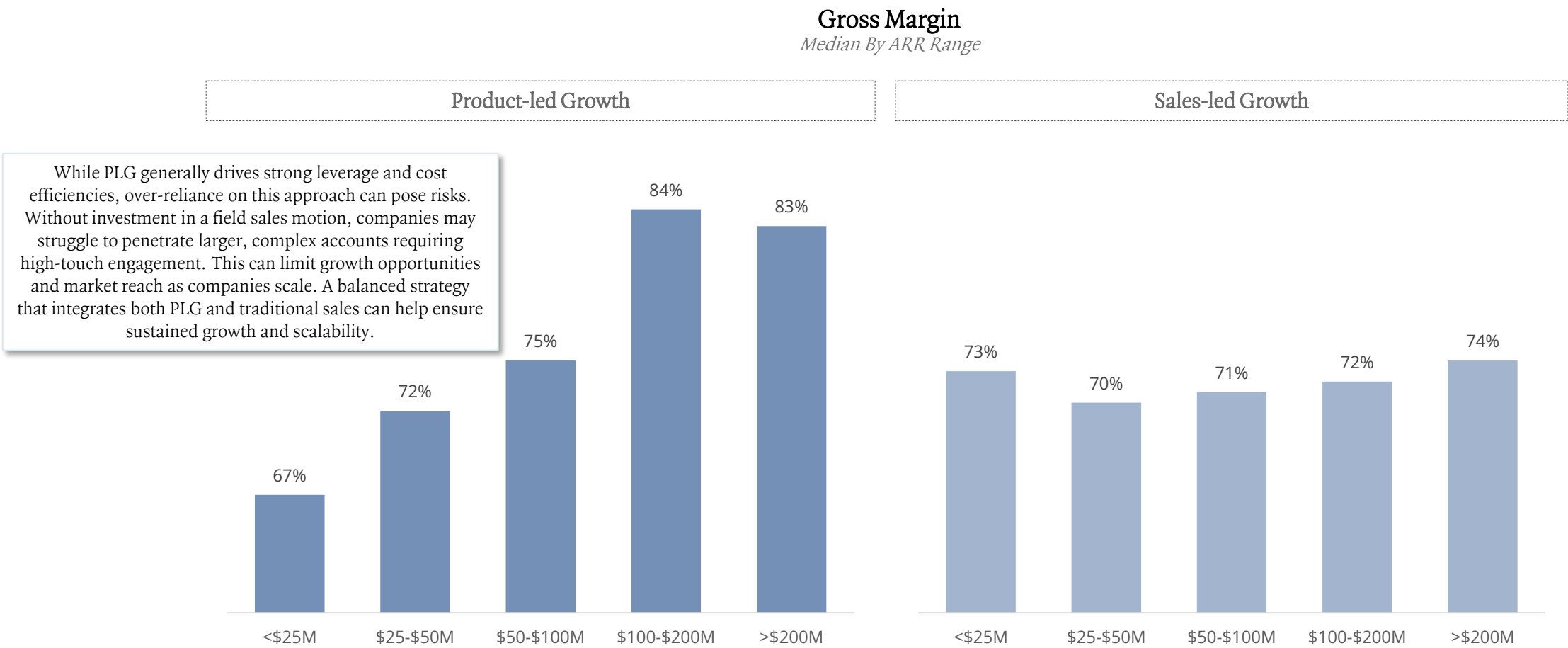
Source: Quarterly operating and financial data from the companies included (N-size: 516)

Top quartile software companies typically reach ~80%+ gross margins as they scale, primarily driven by efficiencies from operationalizing professional services, scaling customer support, and productizing implementation



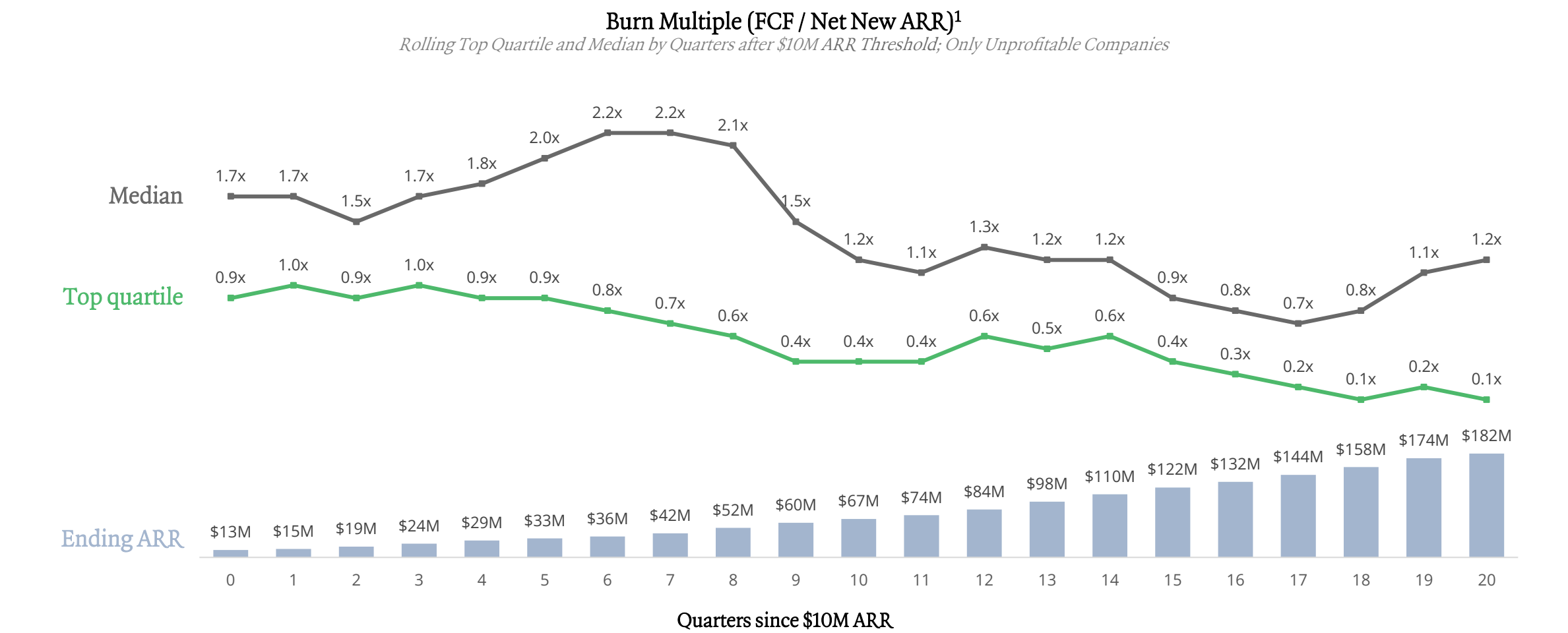
Source: Quarterly operating and financial data from the companies included (N-size: 1521)

PLG companies tend to see leverage and reduced COGS compared to sales-led companies once they hit \$50M ARR, likely driven by strong self-serve motions and fewer implementation costs



Source: Quarterly operating and financial data from the companies included (N-size: 1521)

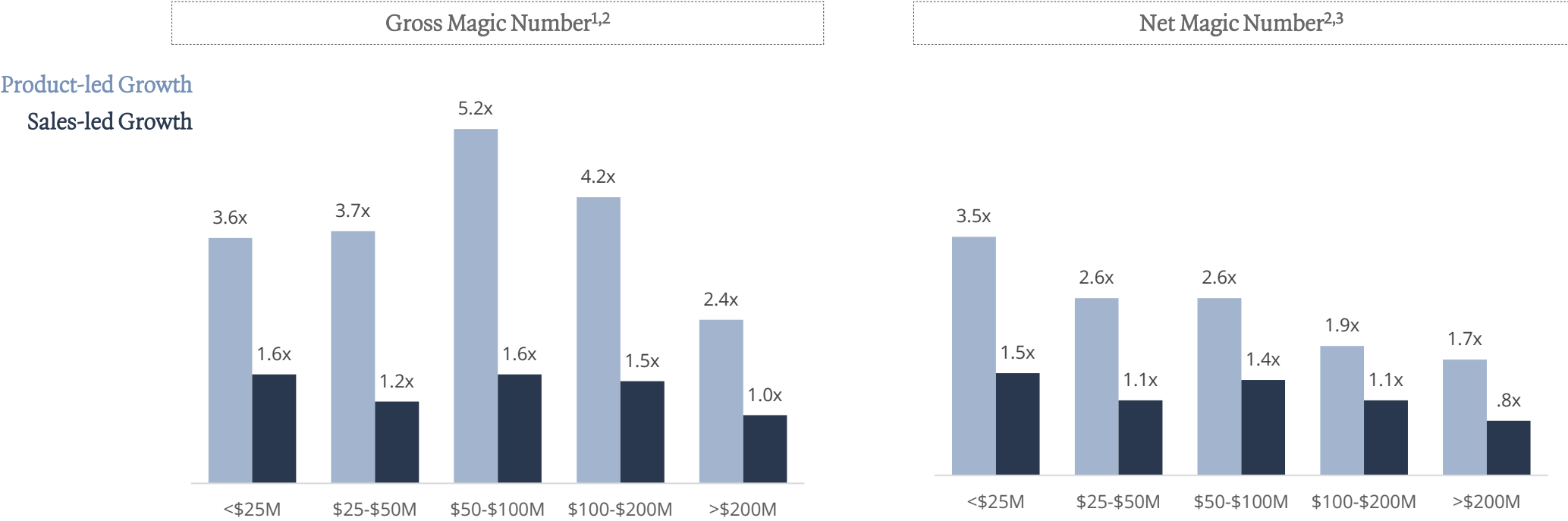
Burn multiple focuses on how much is being burned to generate each incremental dollar of ARR. Top quartile SaaS companies typically maintain a burn multiple under 1.0x after reaching ~\$25M in ARR



Source: Quarterly operating and financial data from the companies included (N-size: 709)
1 Top quartile for burn multiple refers to 25th percentile

Usually requiring lower S&M spend, PLG companies tend to have higher GTM efficiency compared to sales-led growth companies, which typically have net magic number usually closer to ~2x

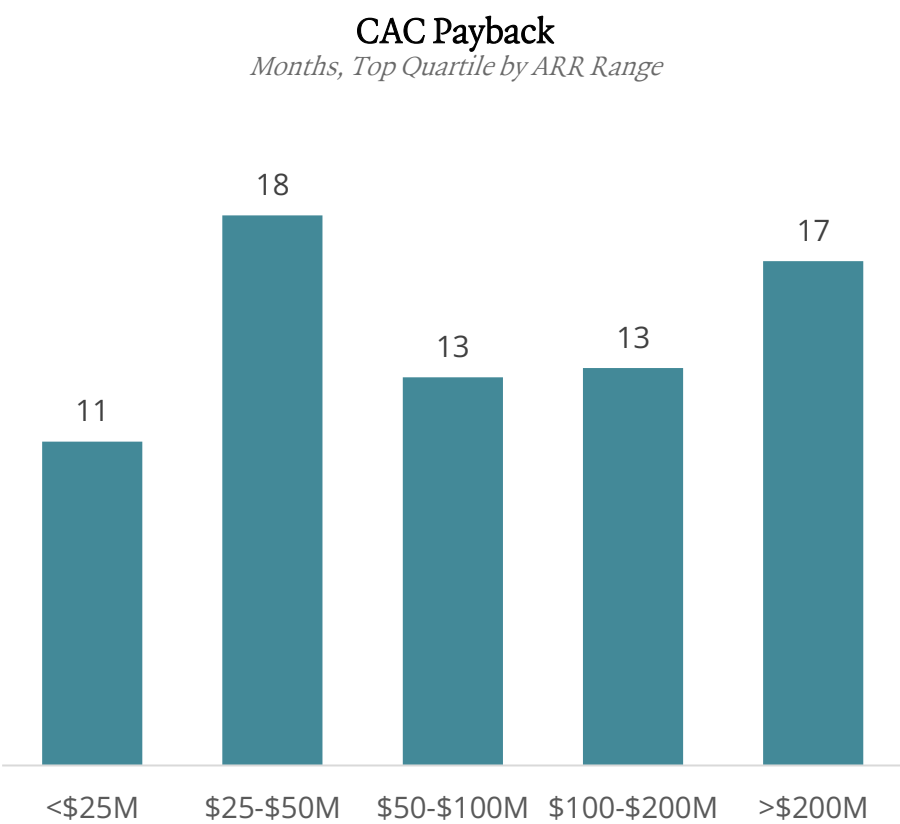
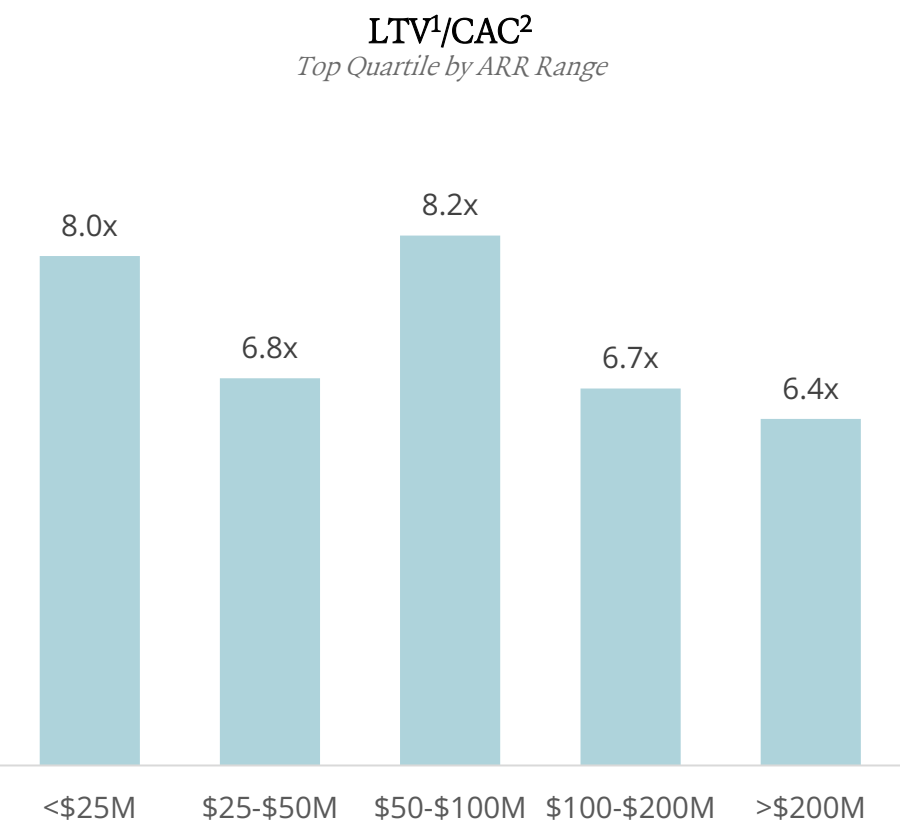
Magic Number
Top Quartile By ARR Range



To compare other PLG and Sales-led company metrics check out Compass by ICONIQ Growth

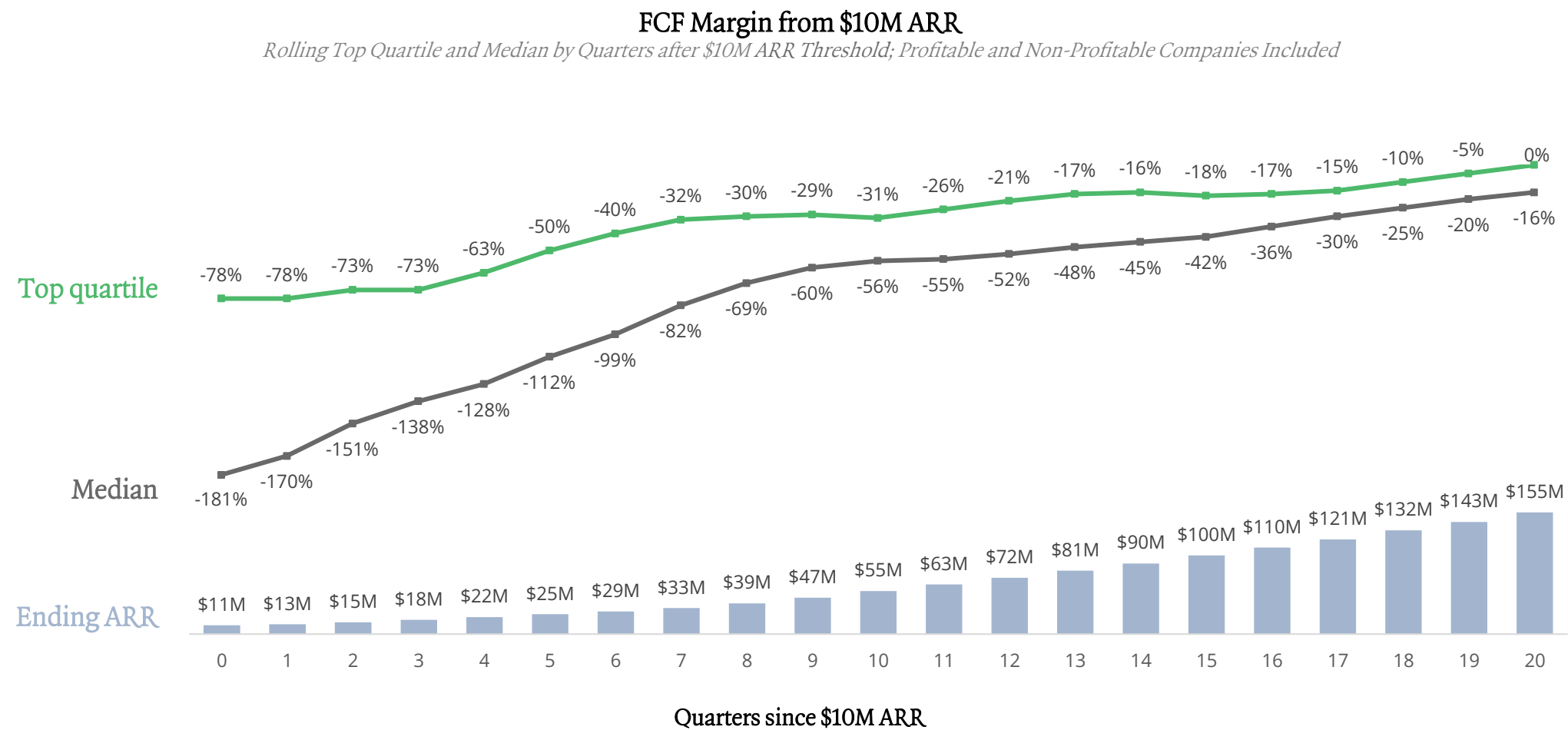
Source: Quarterly operating and financial data from the companies included (N-size: 1574)
1 Gross Magic Number = Current quarter Gross New ARR / prior quarter S&M OpEx
2 Quarter of S&M OpEx utilized in magic number calculations generally should depend on a given company's sales cycle
3 Net Magic Number = Current quarter net new ARR / prior quarter S&M OpEx

Top quartile SaaS companies typically achieve LTV/CAC ratios above ~6x and maintain CAC payback periods below ~20 months across all scales



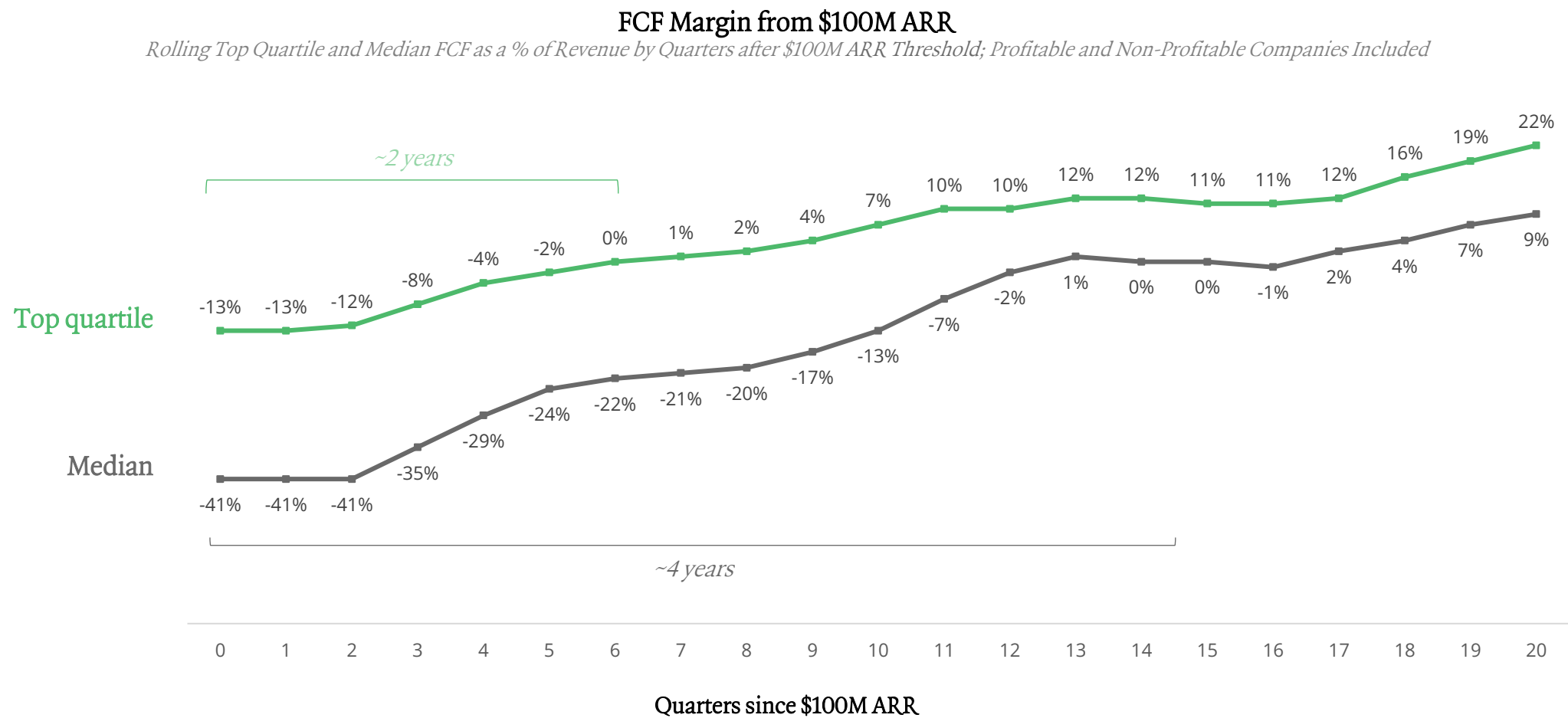
Source: Quarterly operating and financial data from the companies included (N-size: 1373)
1 ARPU x Gross Margin / Customer Churn Rate
2 S&M Expense / Gross New Customers

Top quartile SaaS companies typically achieve positive FCF margins around ~\$150M in ARR, which corresponds to ~5 years after reaching \$10M ARR



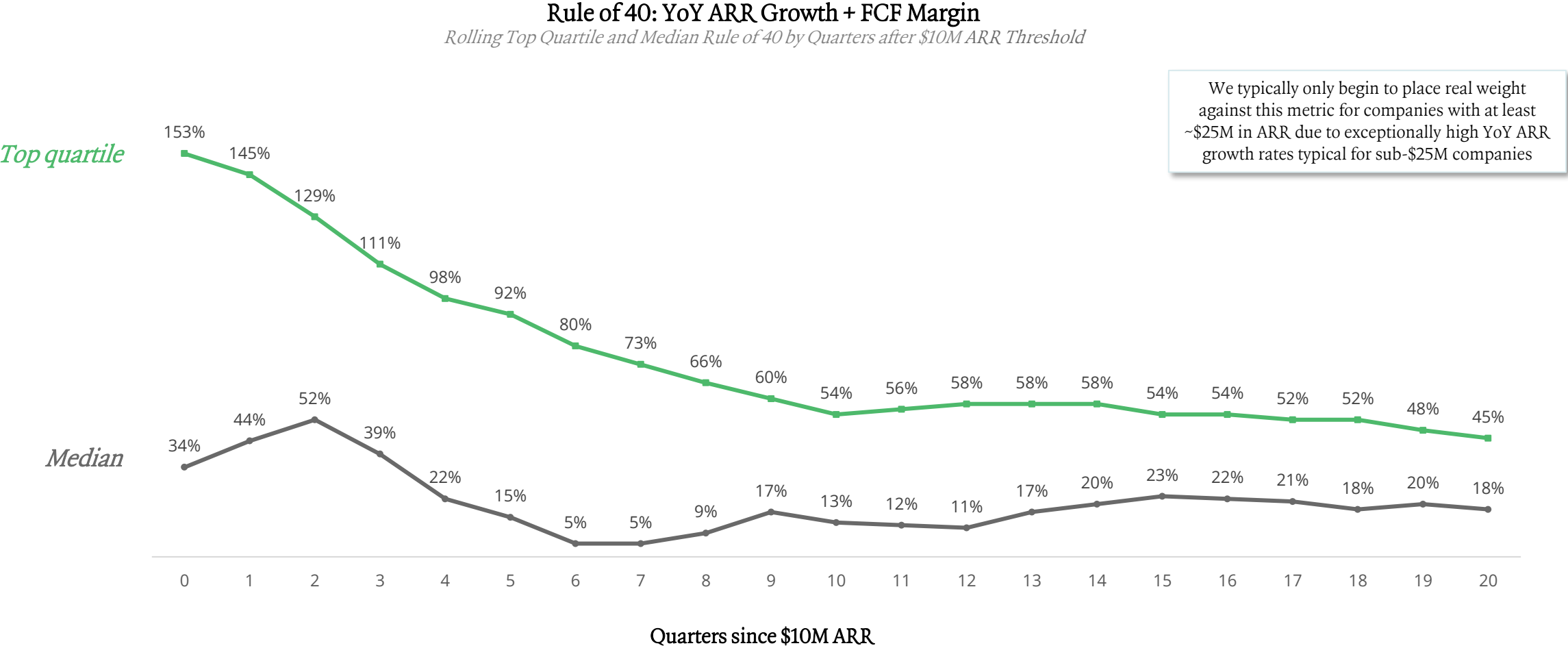
Source: Quarterly operating and financial data from the companies included (N-size: 835)

On average, SaaS companies approach positive FCF margins ~4 years after reaching \$100M ARR, while top quartile SaaS companies reach profitability within ~2 years



Source: Quarterly operating and financial data from the companies included (N-size: 552)

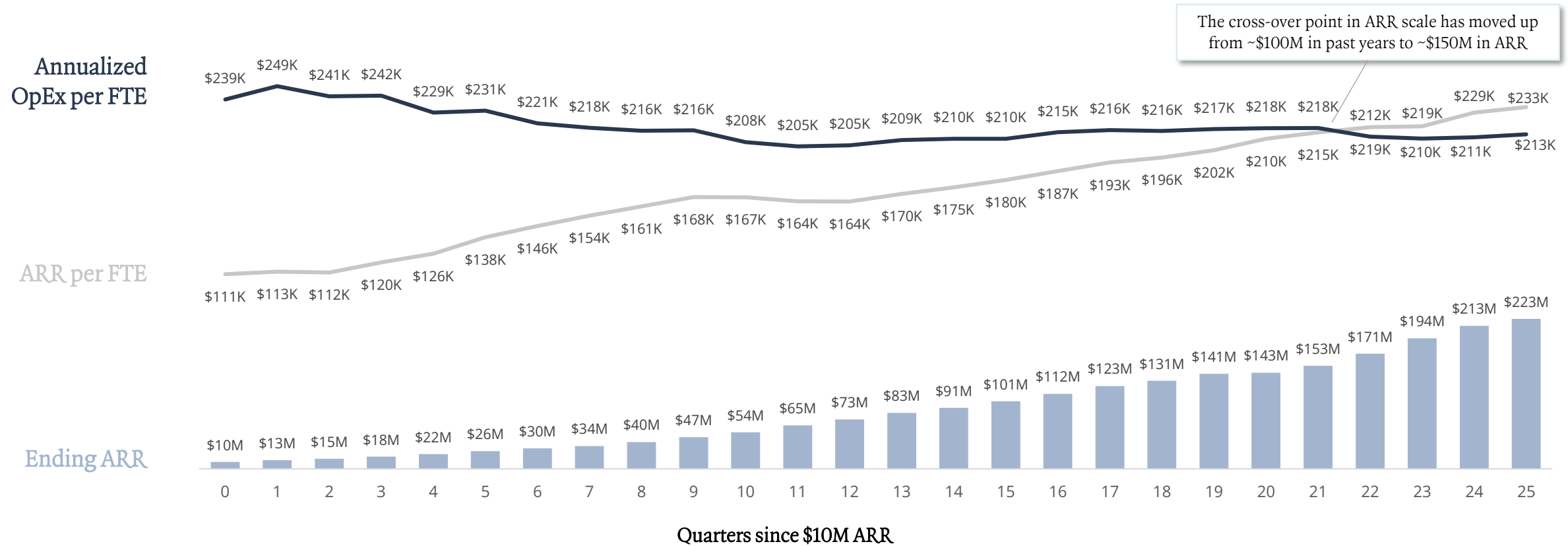
The Rule of 40 measures the tradeoff between growth and efficiency. Rule of 40 tends to decline as SaaS companies scale and growth slows down. However, top quartile SaaS companies are typically able to achieve Rule of 40 regardless of ARR scale



Source: Quarterly operating and financial data from the companies included (N-size: 895)

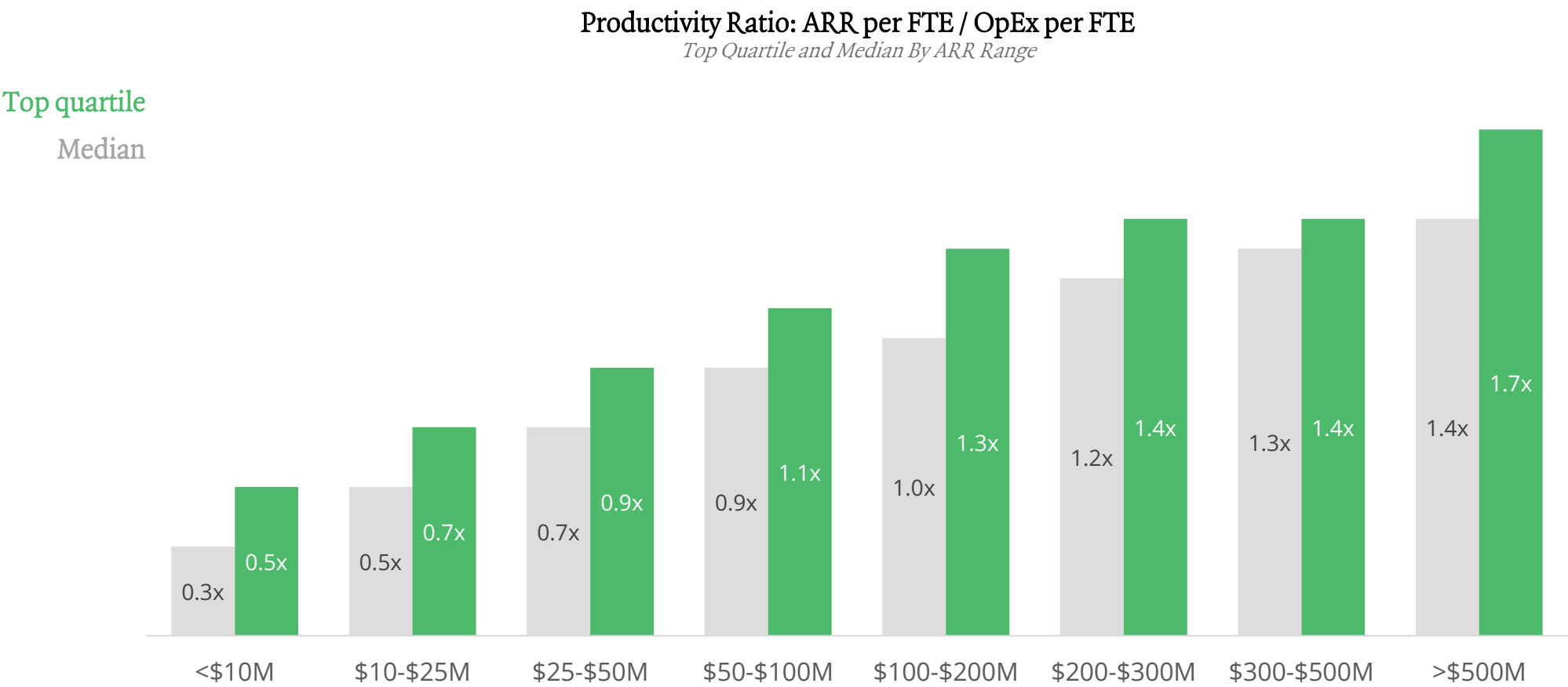
Over time, ARR per FTE should outpace OpEx per FTE as companies find increasing leverage and improve employee productivity. FTE productivity tends to surpass FTE efficiency around the ~\$150M ARR scale

ARR per FTE and Annualized OpEx per FTE
Rolling Median by Quarters after \$10M ARR Threshold



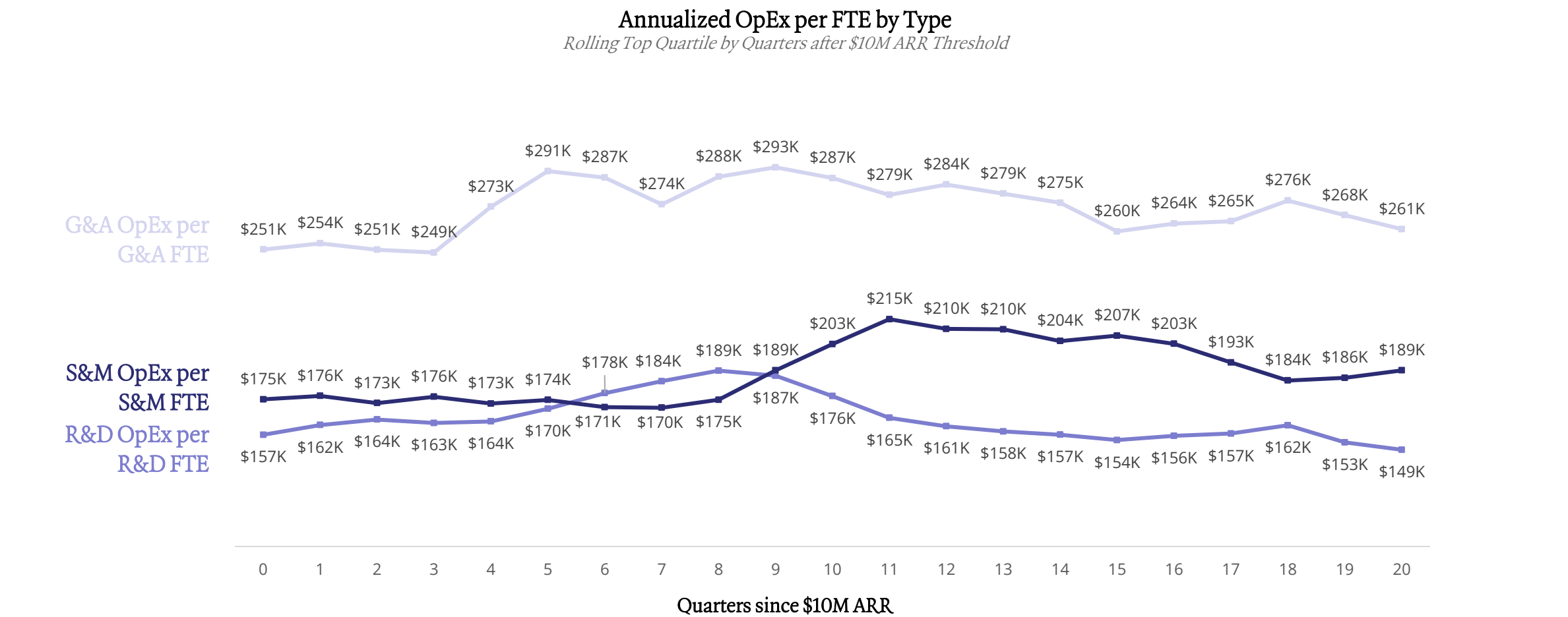
Source: Quarterly operating and financial data from the companies included (N-size: 835)

The productivity ratio measures how much ARR is generated per employee relative to how much spend is being invested per employee. As top quartile SaaS companies scale past \$50M in ARR, they typically achieve a productivity ratio greater than 1.0x



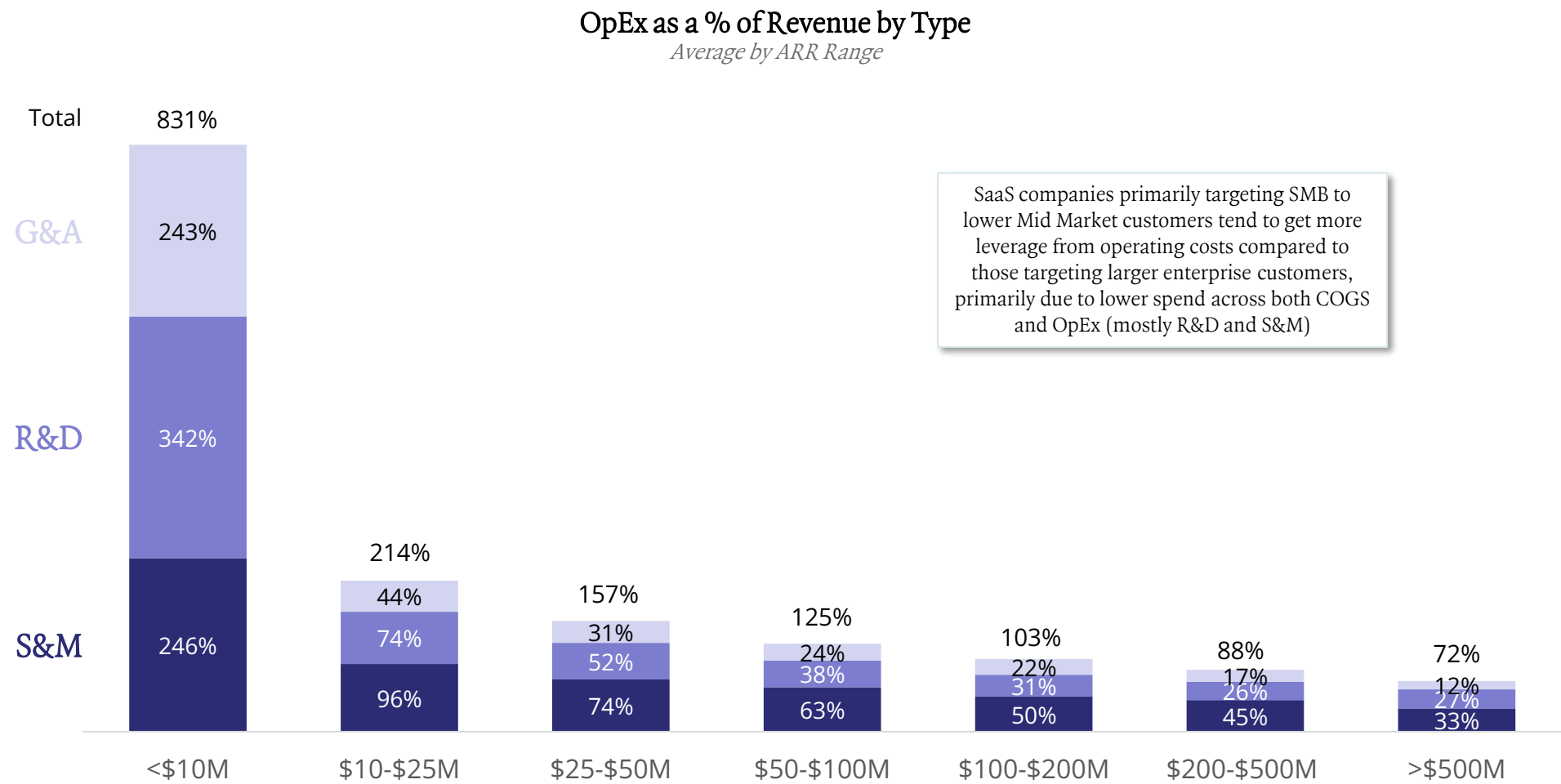
Source: Quarterly operating and financial data from the companies included (N-size: 1278)

Over time, companies typically invest more in S&M on a per head basis, while seeing increased leverage in R&D due to product maturity and operational efficiencies



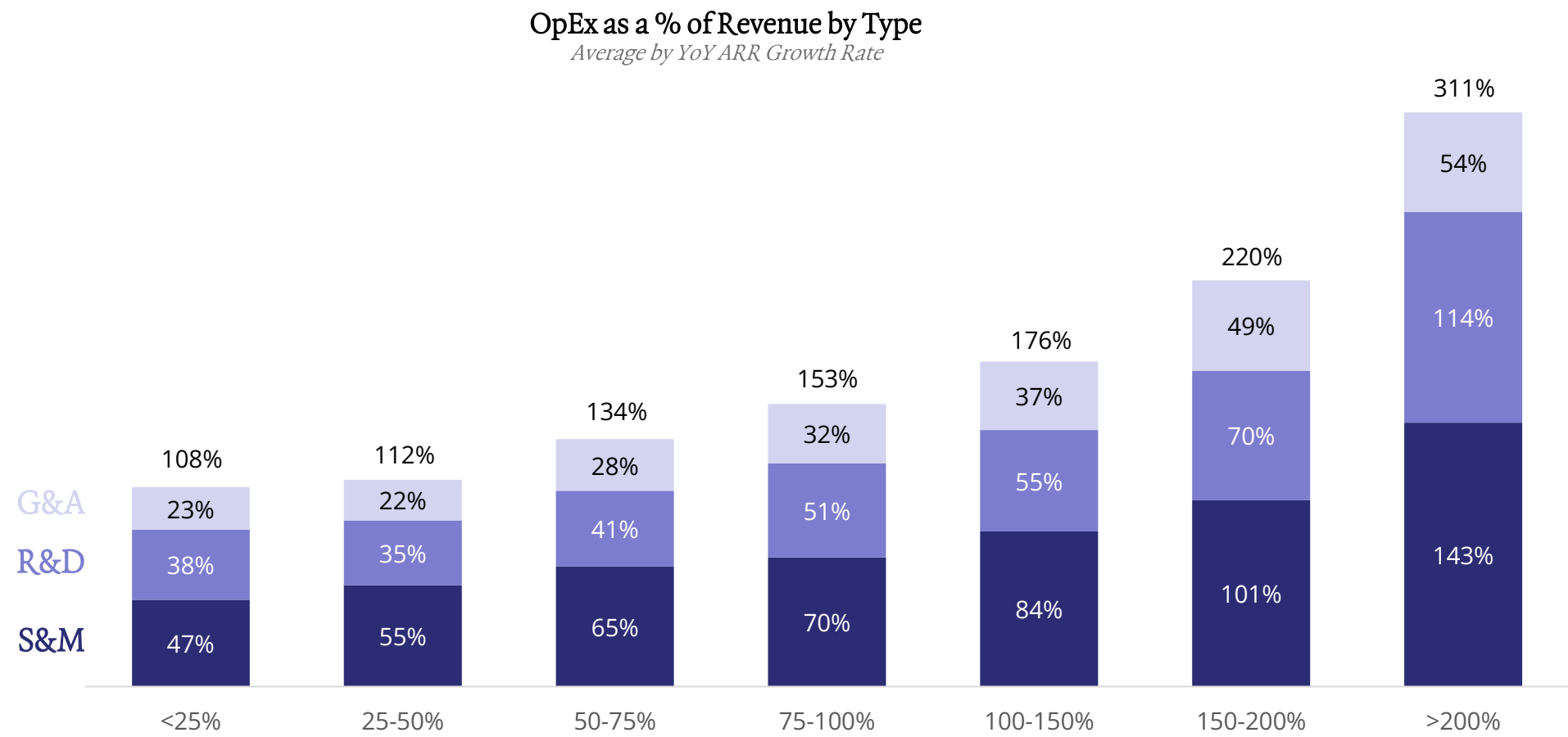
Source: Quarterly operating and financial data from the companies included (N-size: 508)

As SaaS companies scale and efficiencies are achieved across all aspects of operations, OpEx generally decreases relative to revenue. Revenue typically outpaces OpEx around ~\$200M ARR



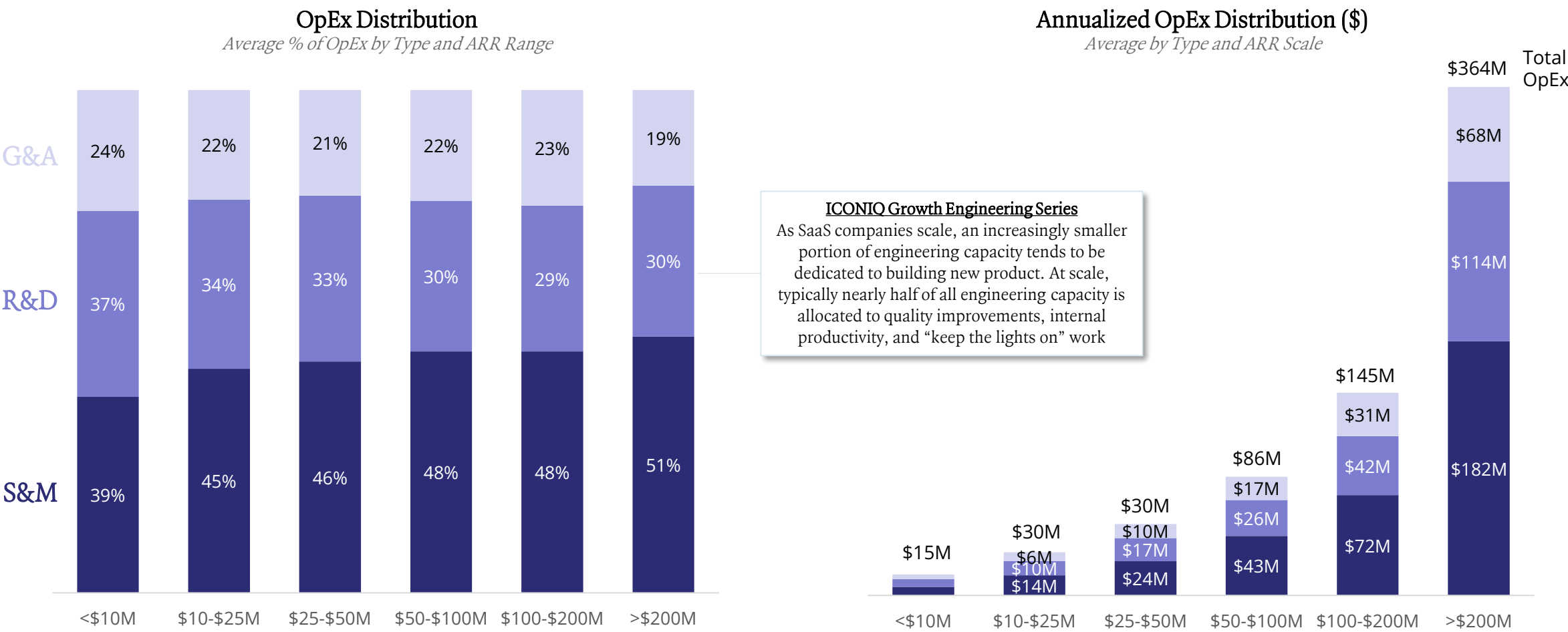
Source: Quarterly operating and financial data from the companies included (N-size: 1868)

Total operating spend scales directionally with pace of growth. For hyper-growth SaaS companies (i.e. those in the 200%+ YoY ARR growth), total operating spend typically outpaces revenue by ~3-4x



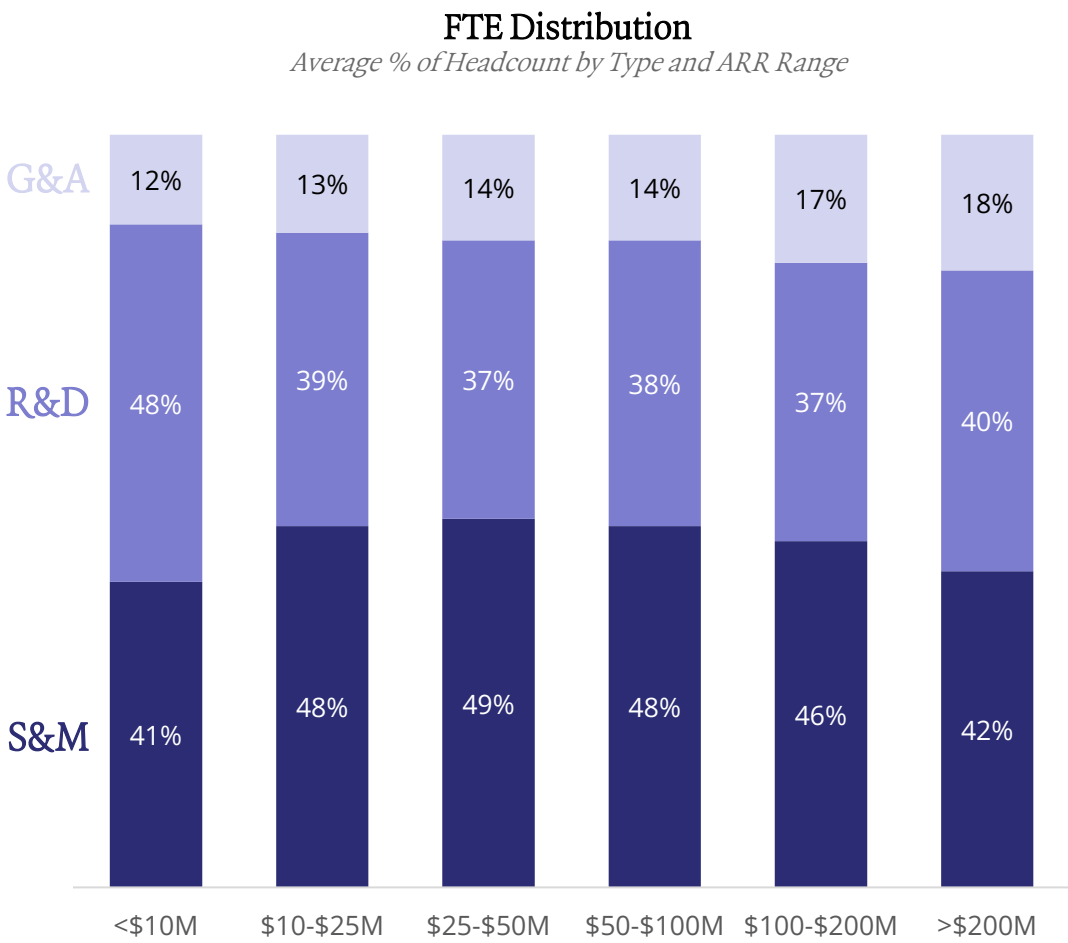
Source: Quarterly operating and financial data from the companies included (N-size: 1287)

On average, R&D makes up an increasingly smaller proportion of operational spend as products mature and focus shifts towards go-to-market. As companies approach ~\$200M ARR, S&M spend typically increases to more than 50% of total OpEx

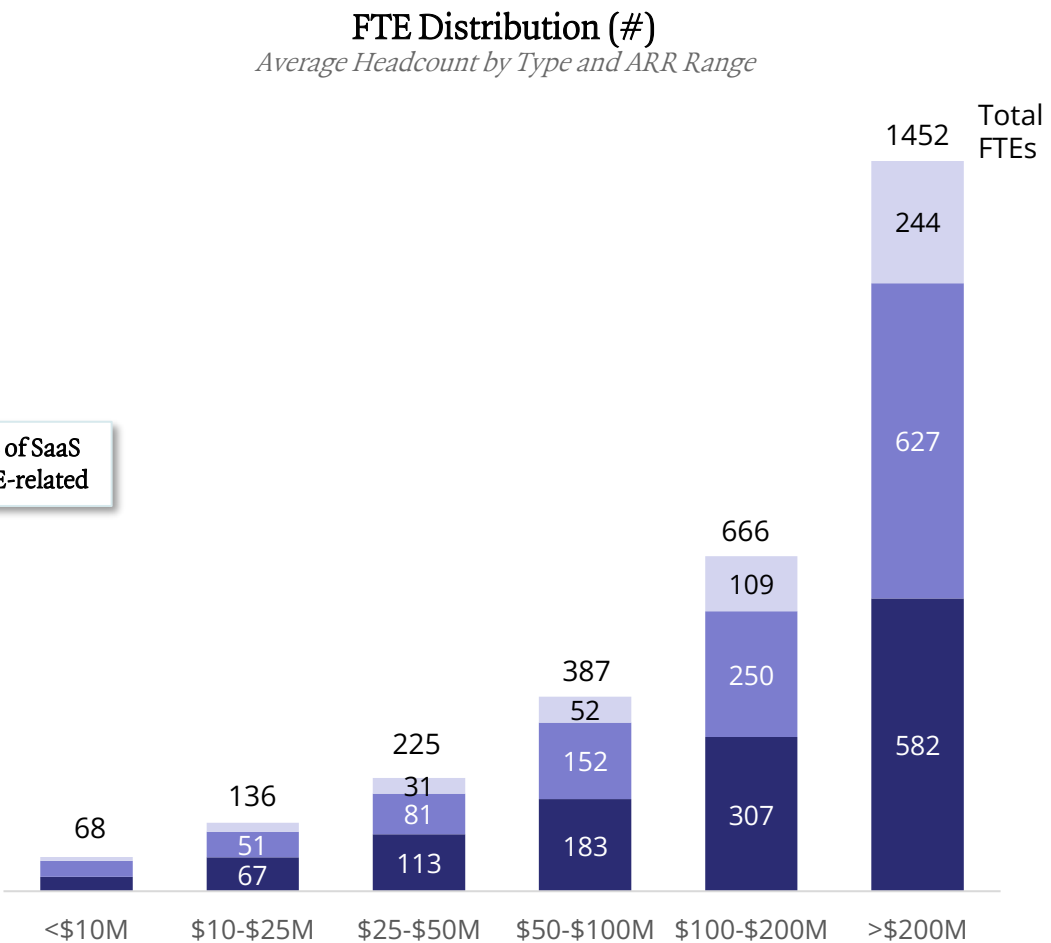


Source: Quarterly operating and financial data from the companies included (N-size: 1577)

Typically, as the major driver of OpEx, headcount trends similarly to OpEx as 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 ops and GTM

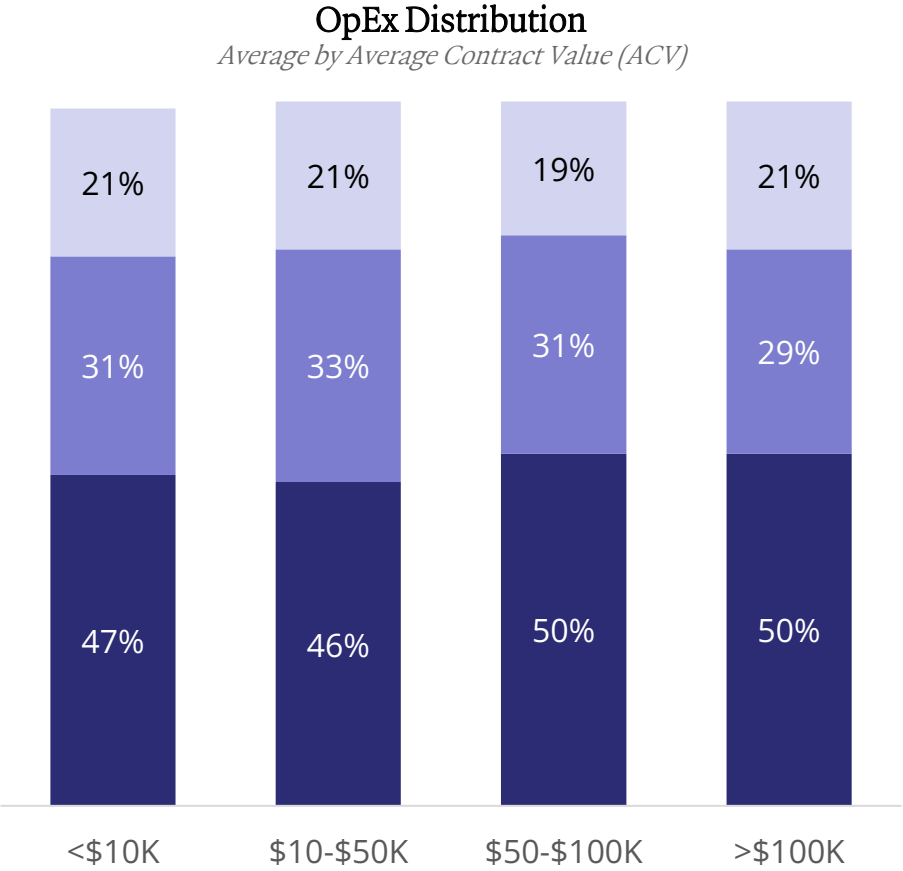
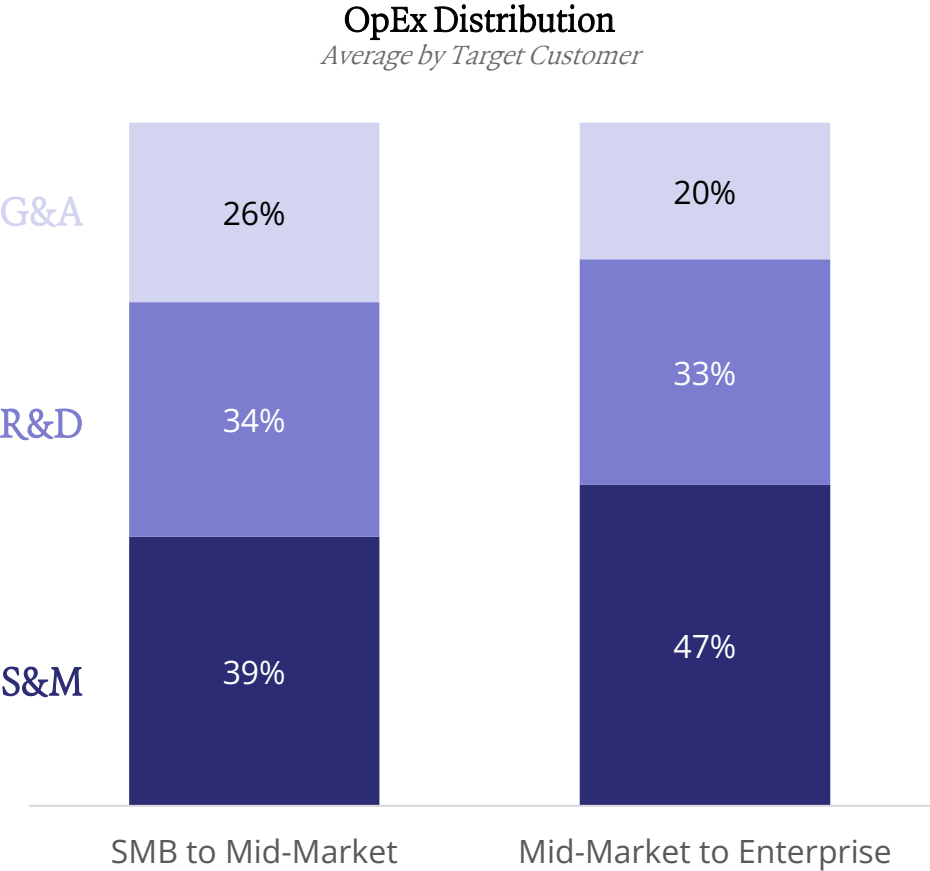


An average of 60-75% of SaaS operating costs are FTE-related



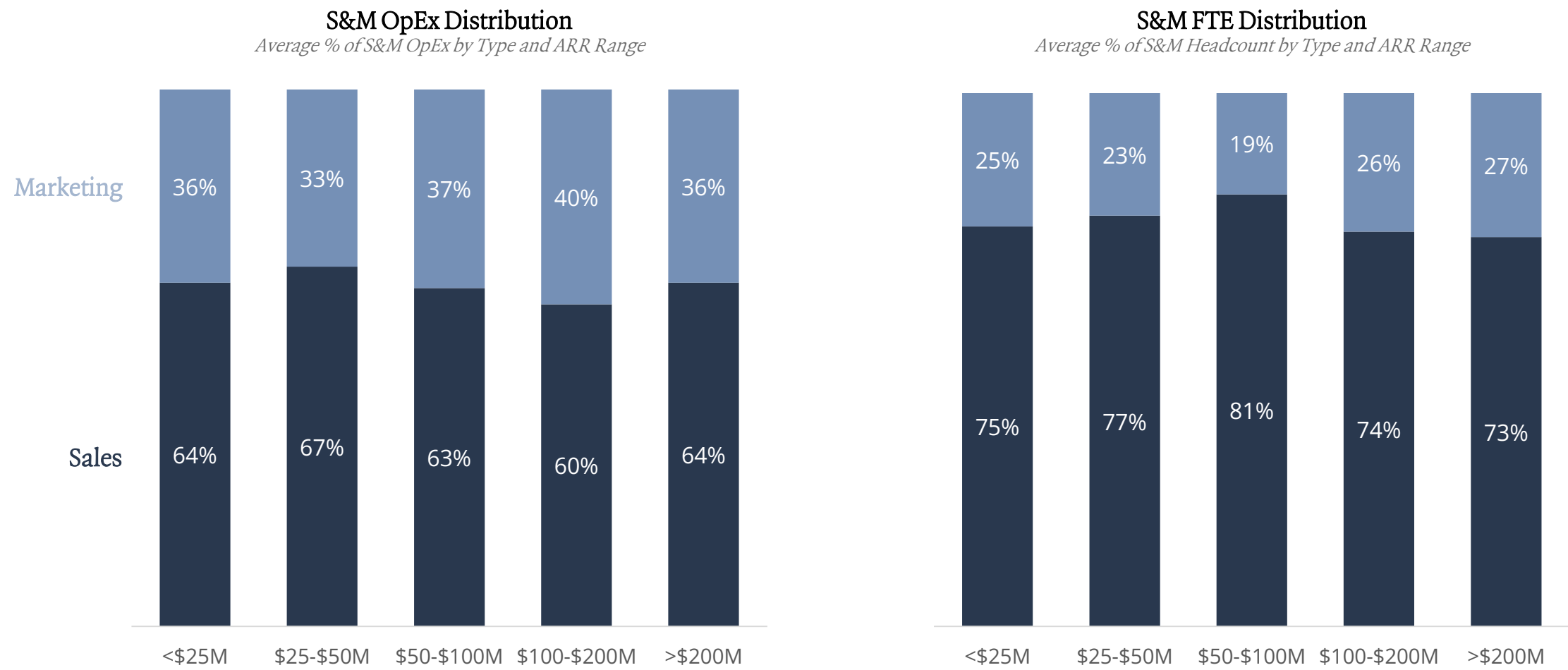
Source: Quarterly operating and financial data from the companies included (N-size: 920)

Companies selling to mid-market and enterprise typically have higher S&M spend, likely due to higher-touch sales cycles; this trend also holds true when looking at OpEx distribution by ACV¹: the higher the ACV, the higher the S&M spend



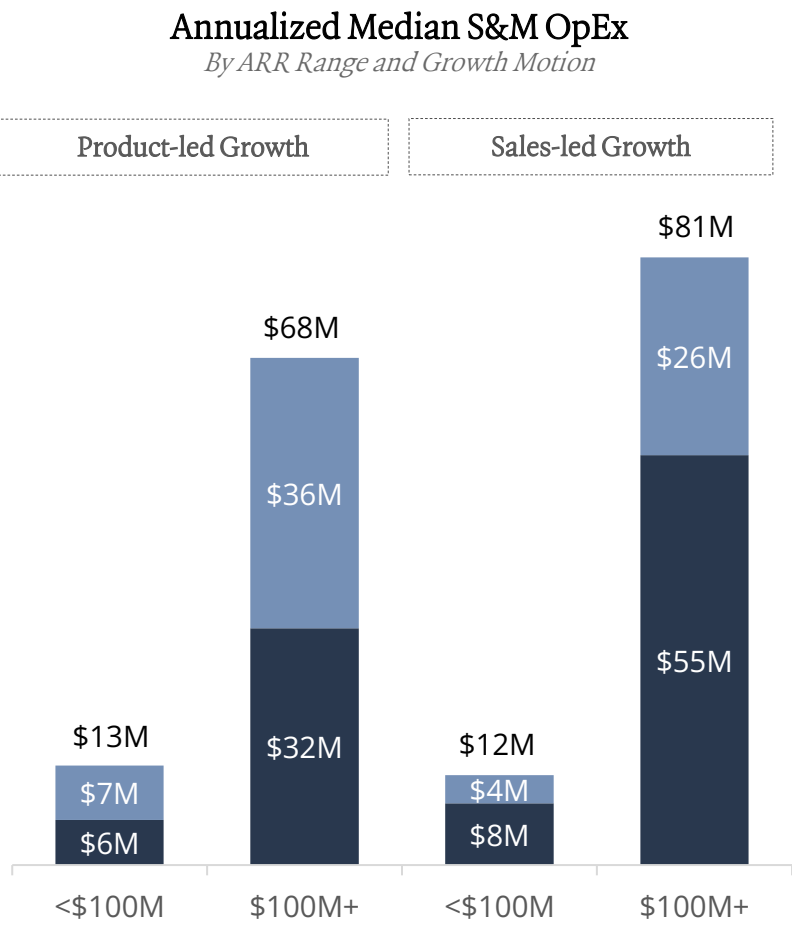
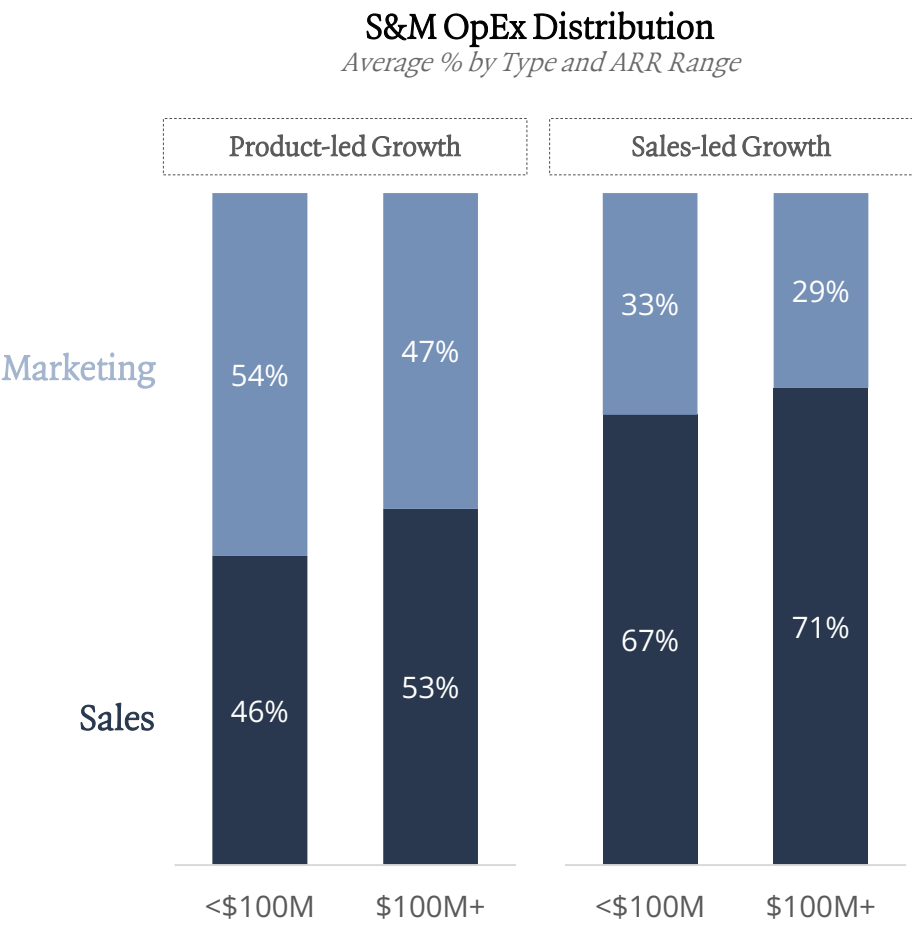
Source: Quarterly operating and financial data from the companies included (N-size: 543)
¹ Average Contract Value

Sales spend, which may include customer success spend if relevant¹, usually comprises 60-70% of total GTM spend and around 70-80% of total GTM headcount



Source: Quarterly operating and financial data from the companies included (N-size: 475)
¹ , it may make sense for a company that has a Customer Success team that focuses more on implementation and customer support to allocate this team in COGS, whereas for other companies where Customer Success handles renewal / expansions, this team may roll up to Sales & marketing expenses

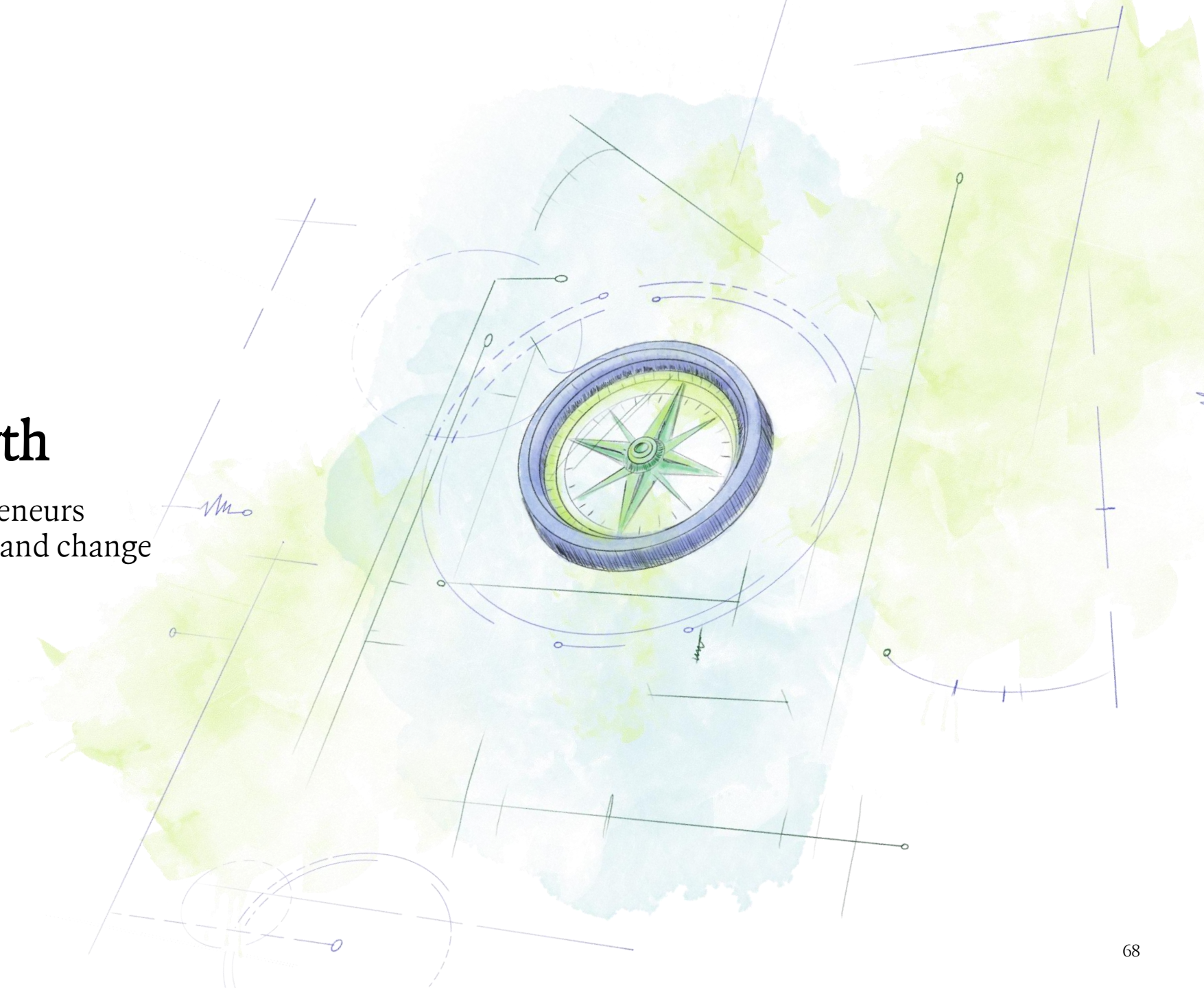
On average, PLG companies invest significantly more into marketing over sales compared to sales-led growth companies given the outsized importance of brand awareness for companies with a self-serve or inbound motion



Source: Quarterly operating and financial data from the companies included (N-size: 436)

About ICONIQ Growth

We partner with exceptional entrepreneurs
and leaders who drive global impact and change

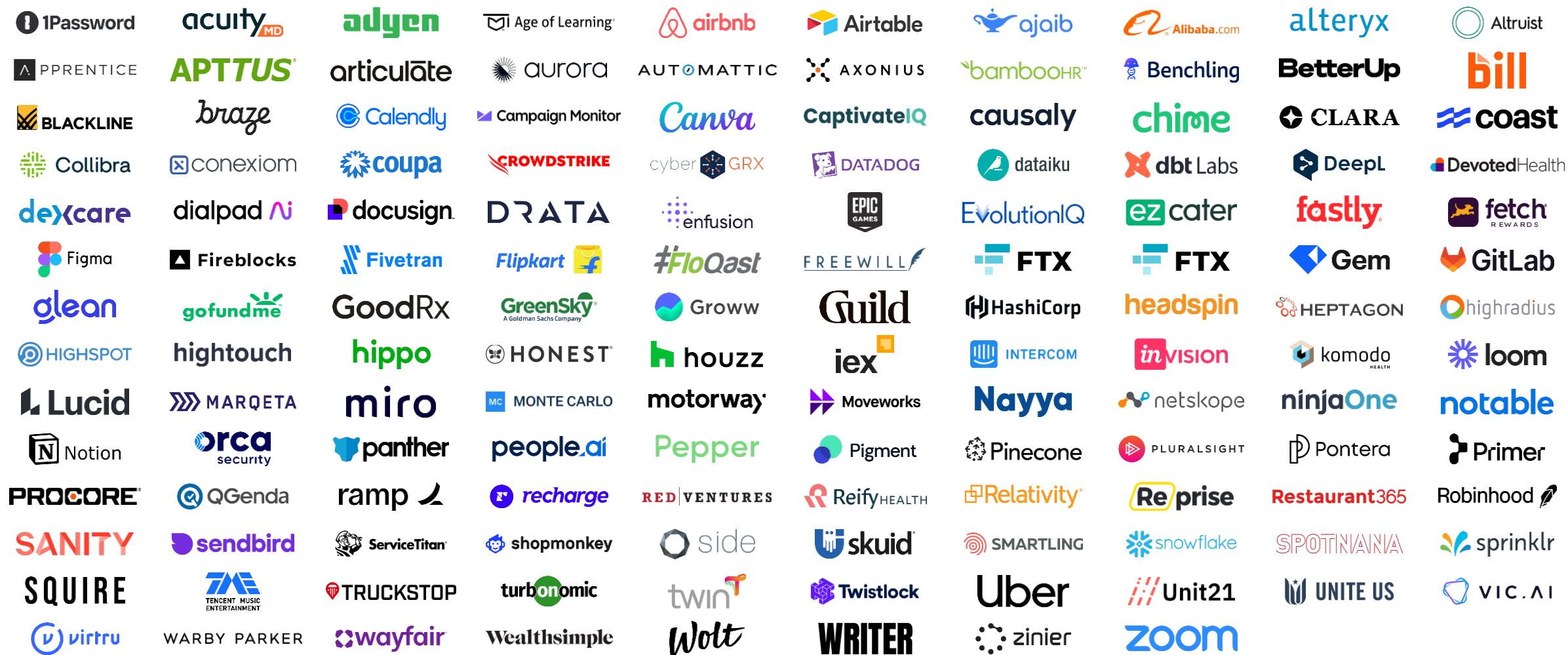


Technology matters. Strategy matters. People matter most.

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A global portfolio of category-defining businesses



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 (except those subject to confidentiality obligations). 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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