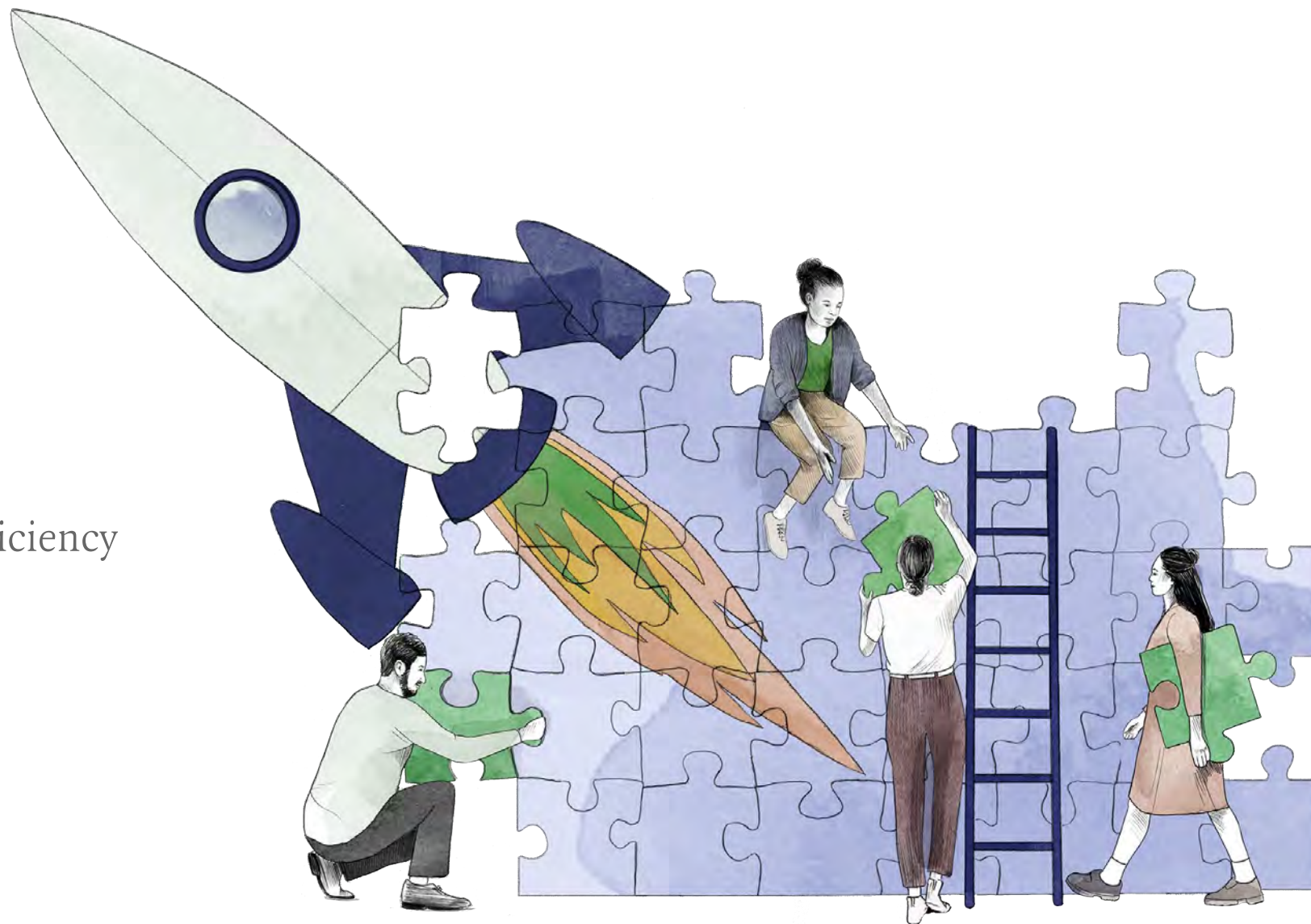


ICONIQ | Growth

# The New Era of Efficient Growth

Topline Growth and Operational Efficiency

August 2023



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# 1

# Introduction

*The Companies Included*

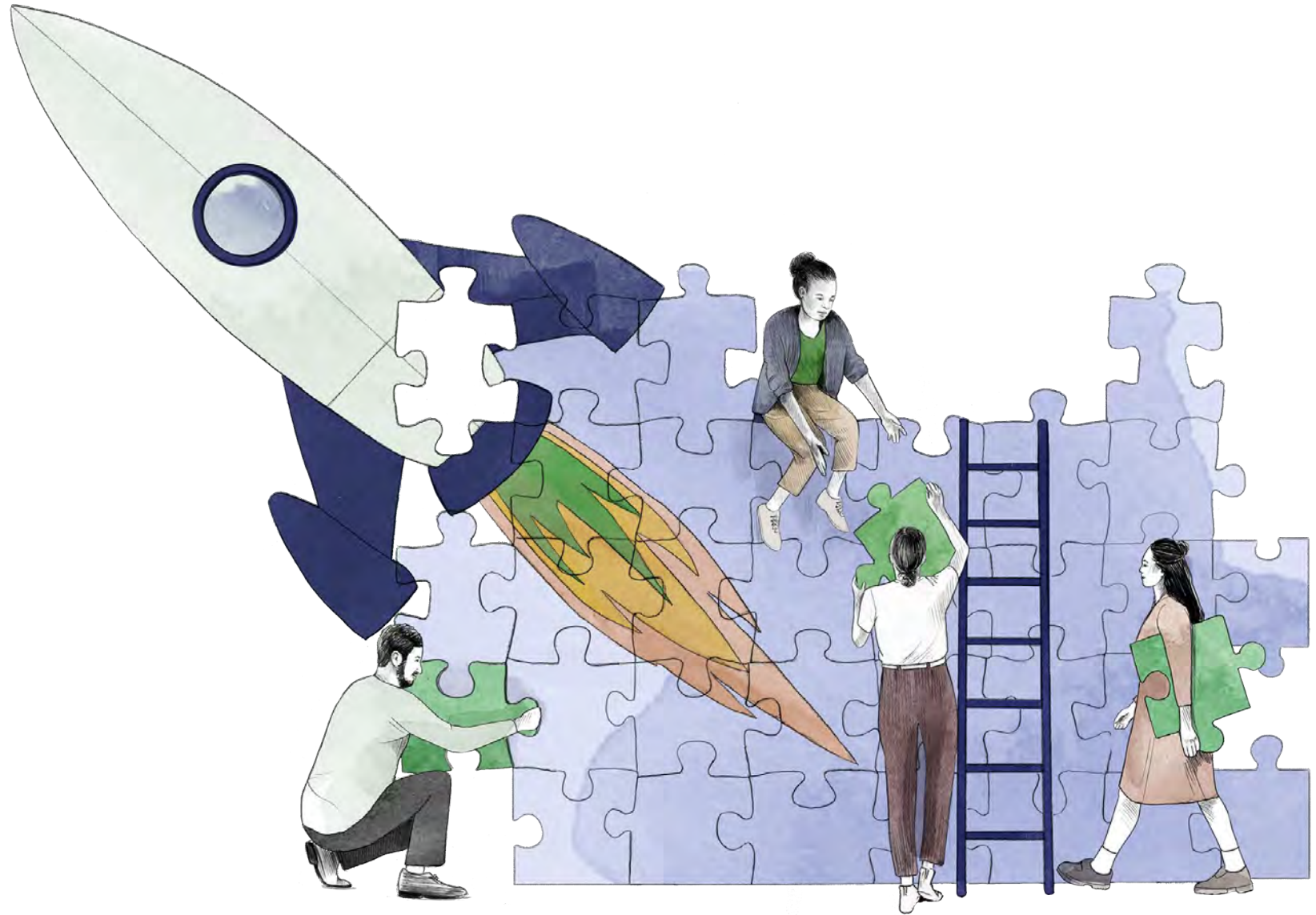
*Firmographics*

*Methodology*

*Data Sources*

*Analysis*

*Resiliency Framework*



# About the Research

Every year, the ICONIQ Growth Analytics team analyzes the **financial and operating metrics from the ICONIQ Growth portfolio and a selection of public companies** to understand the data behind scaling B2B SaaS companies.

Along with a full refresh of the analysis, this year we are excited to share 3 **companion reports focused on vertical SaaS businesses, product-led growth companies, and scaling early-stage companies**, in addition to a **board reporting template with benchmarks** from our ICONIQ Growth Enterprise Five and Resiliency Rubric scorecards.

If you're not on our mailing list and are interested in receiving these studies directly, please [let us know here](#).

## Companion Reports

Vertical SaaS

Product-Led Growth

Early-Stage SaaS

## Tools & Reference Materials

Board Reporting Template

The SaaS Glossary

  
Interactive Dashboard  
*Portfolio Only*

## Scorecard Overviews

The Enterprise Five

The Resiliency Rubric

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

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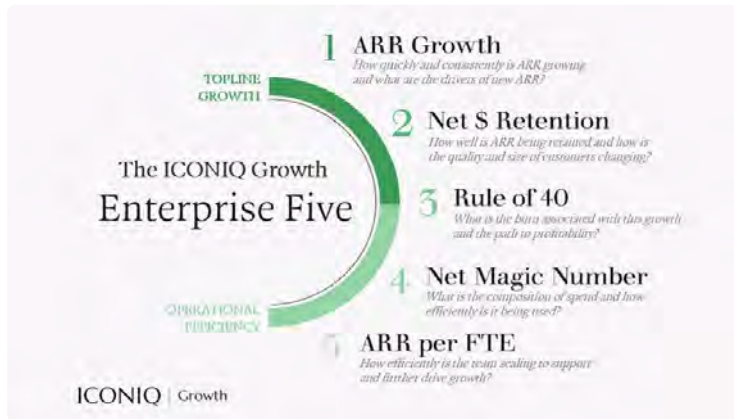


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Portfolio Analytics



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# Follow our research



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# Companies Included

This study summarizes quarterly operating and financial data from 96 B2B SaaS companies.

All ICONIQ Growth portfolio companies were included where data was available, and an additional 13 select public companies were included based on our IPO performance criteria.<sup>1</sup>

<sup>1</sup> See our IPO performance criteria in The Methodology section

<sup>2</sup> Pluralsight went public in 2018 and has since been purchased

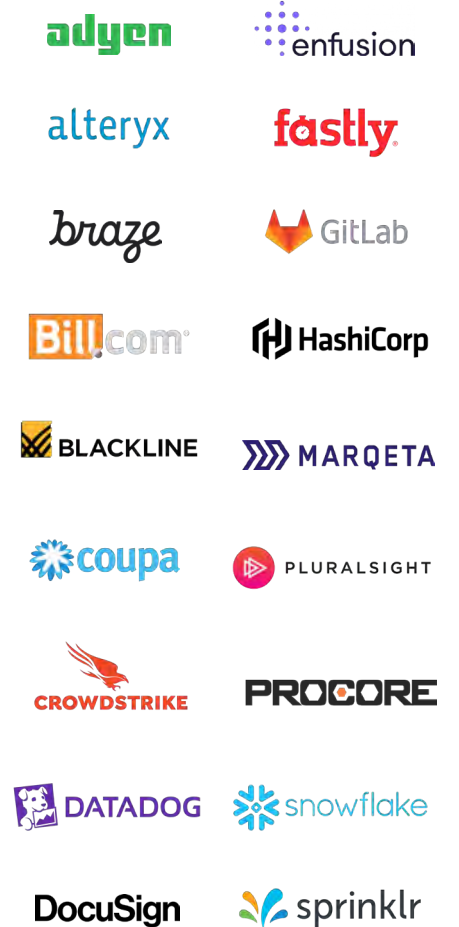
<sup>3</sup> Select ICONIQ Growth companies included in the analysis are not shown here due to privacy of investment. See a full list of portfolio companies in the Appendix.

Trademarks are the property of their respective owners. None of the companies illustrated have endorsed or recommended the services of ICONIQ

## Private



## Public or Acquired<sup>2</sup>



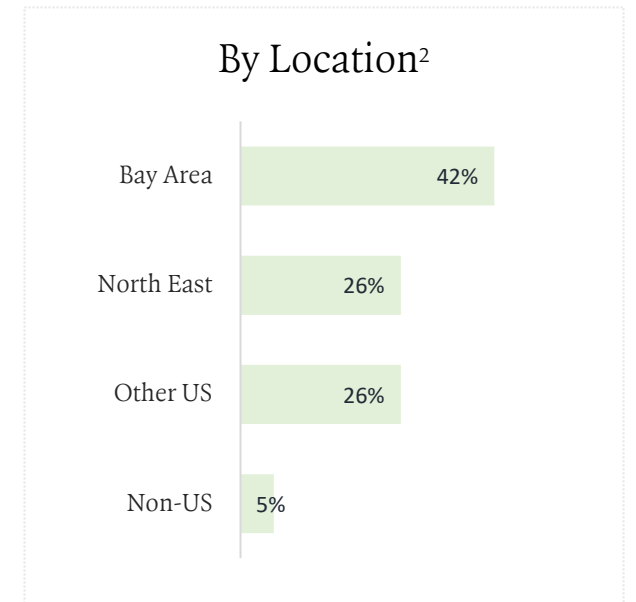
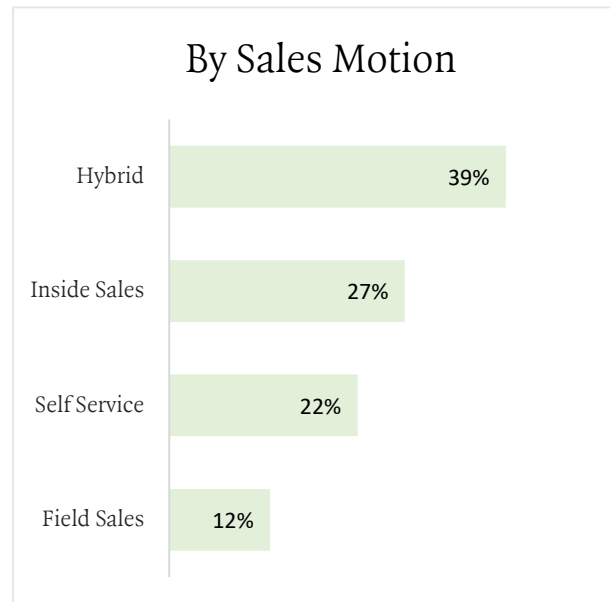
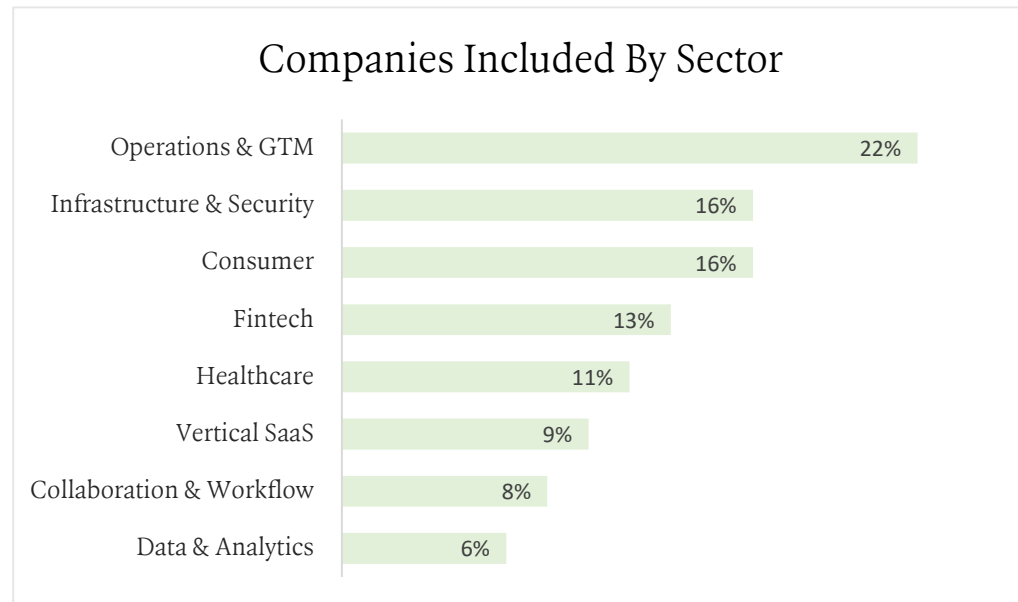
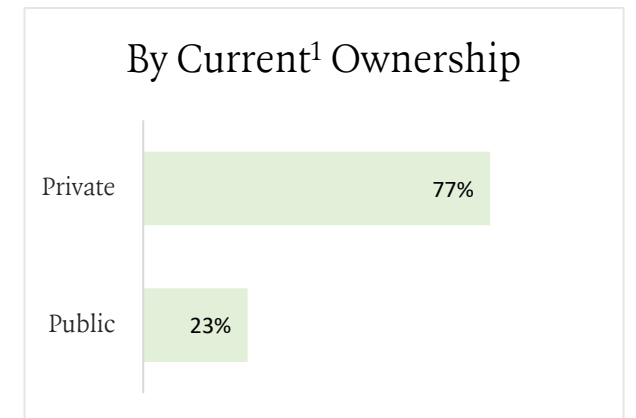
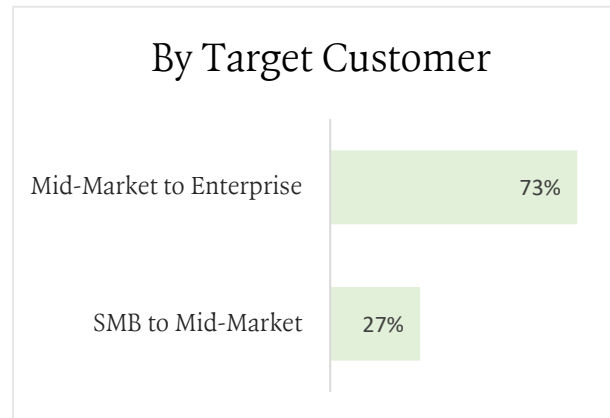
## Select Public Companies<sup>1</sup>





# THE Firmographics

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



<sup>1</sup> As of August 2023; Pluralsight went public in 2018 and was purchased in 2020

<sup>2</sup> Location of Company Headquarters; many companies included have operations internationally

## METHODOLOGY

# Overview & Data Sources<sup>1</sup>

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

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

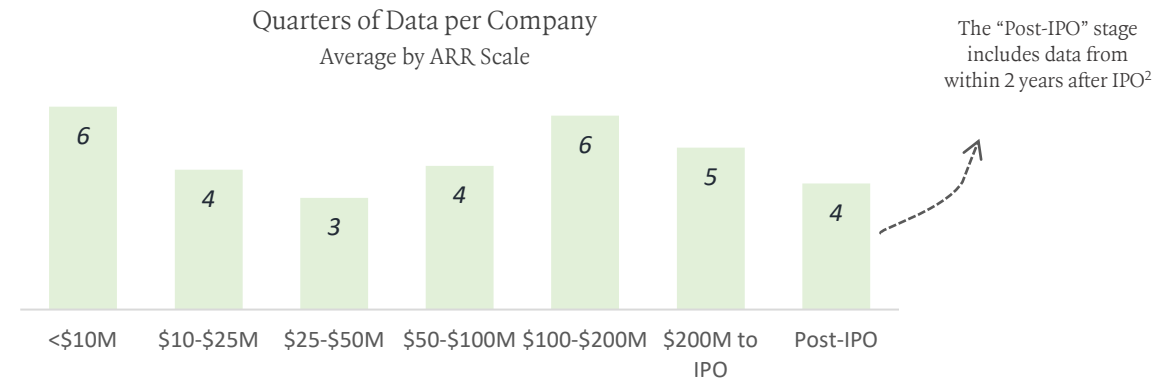
Unless otherwise indicated, references to “SaaS companies” only reflect trends observed with the companies included in the dataset.

<sup>1</sup> 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

<sup>2</sup> 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

## 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:

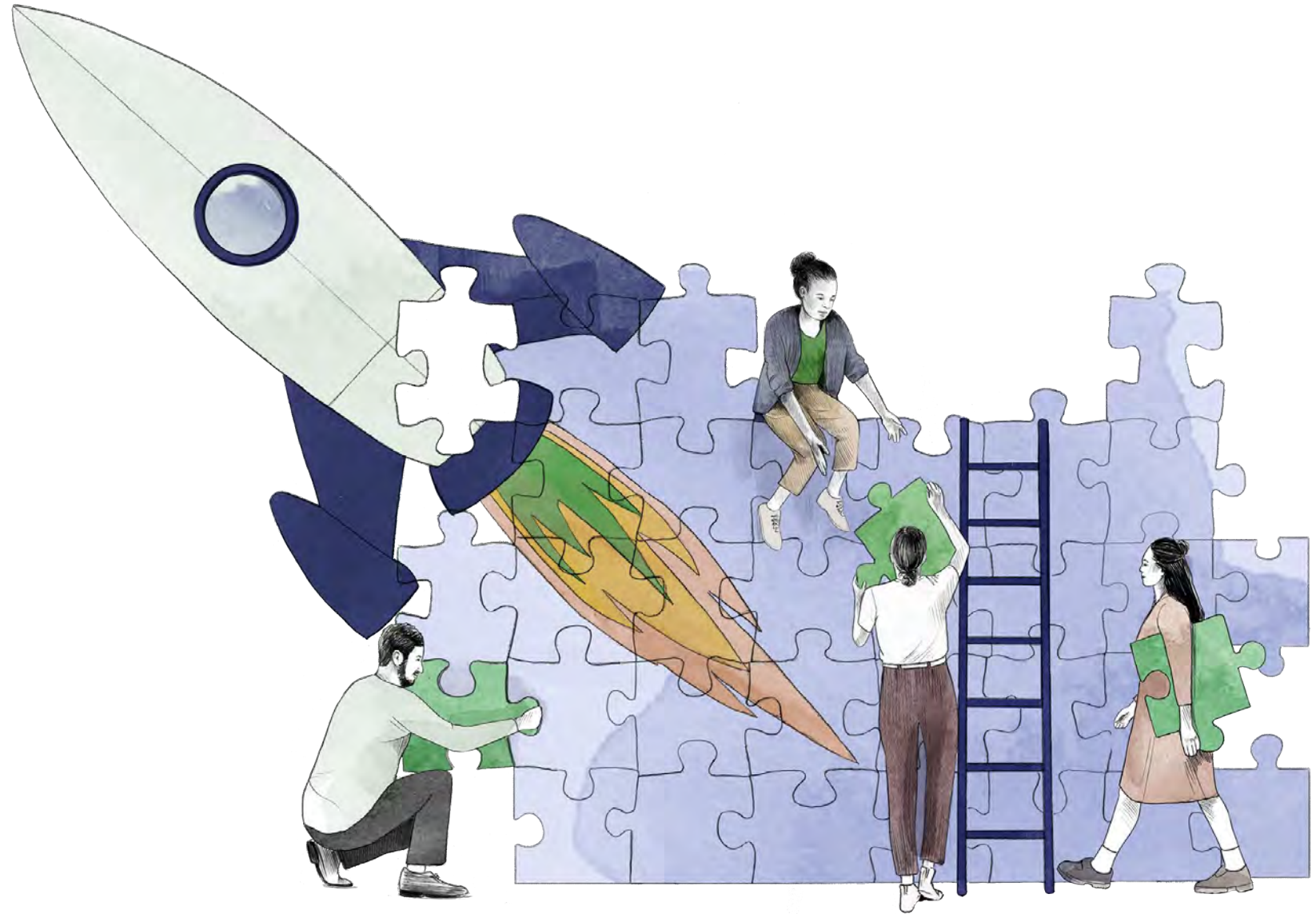


## Public Companies

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 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)*

# 2 Executive Summary



# Benchmarking SaaS Performance in 2023

## About This Year's Report

---

We believe the **last few years of unprecedented growth and favorable tailwinds have been anomalous for SaaS businesses**. Rather than relying on benchmarks exclusively based on 2023 or even the last few years, we believe that the leadership teams of SaaS businesses should be utilizing **aggregate metrics over a longer historical period** to calibrate to realistic standards of performance.

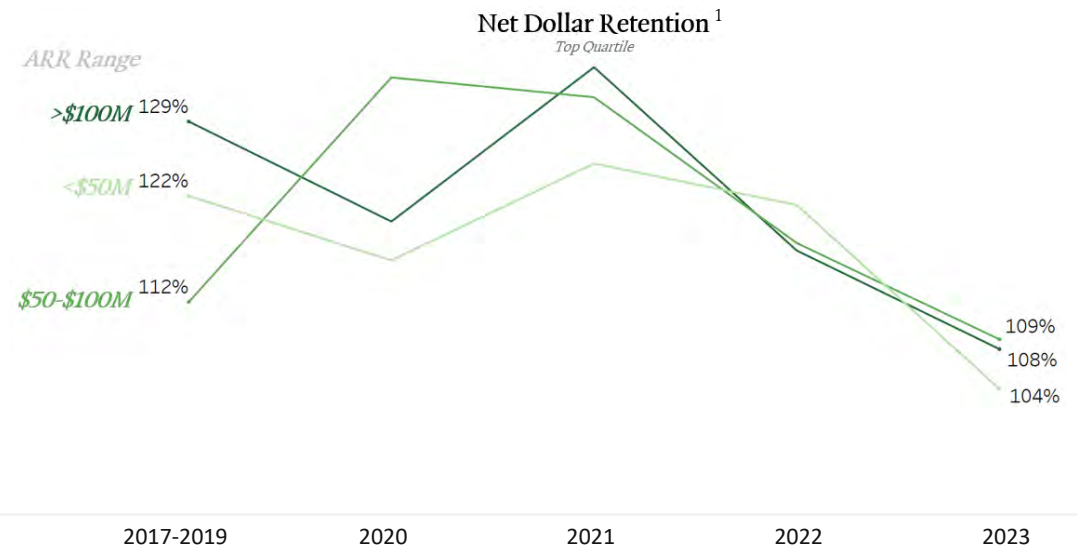
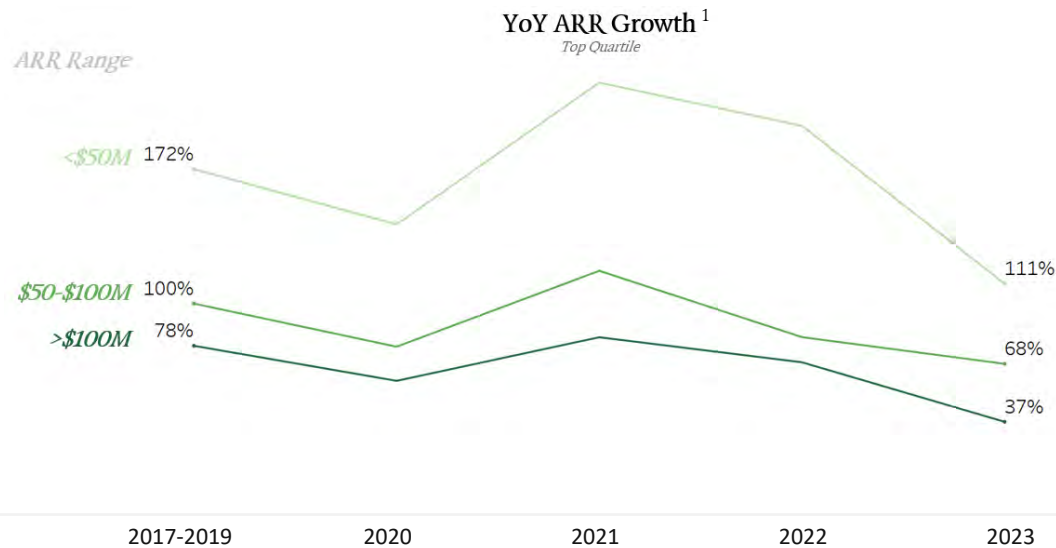
We are proud to have compiled over **a decade's worth of quarterly financial and operating data from private and public SaaS companies** in this year's research, which we believe can serve as an objective way to measure "best in class" performance and to identify drivers of operational success.

We recognize, however, that **today's reality means targets are much harder to achieve than in previous years**. Based on how 1H 2023 has trended, we expect software businesses will continue to face challenges this year. In the following pages, we have provided commentary on the nuances we expect to see in 2023 and beyond, as well as guidance on how companies can pursue growth both more efficiently and resiliently, especially in an era of efficient growth.

# Today's SaaS Landscape

## Impact to Topline

- 2023 has seen **continued deterioration in topline performance** as the macro environment remains challenging for SaaS businesses
- While topline growth has fallen across the board, **early-stage companies saw the biggest impact to ARR growth**, falling from peak levels of 200%+ YoY growth to 111% YoY as of 1H 2023
- Net dollar retention has been similarly impacted, **falling from peak levels of 120-130% in 2017 to ~105% as of 1H 2023**, driven by both elevated levels of churn as well as weakened expansion

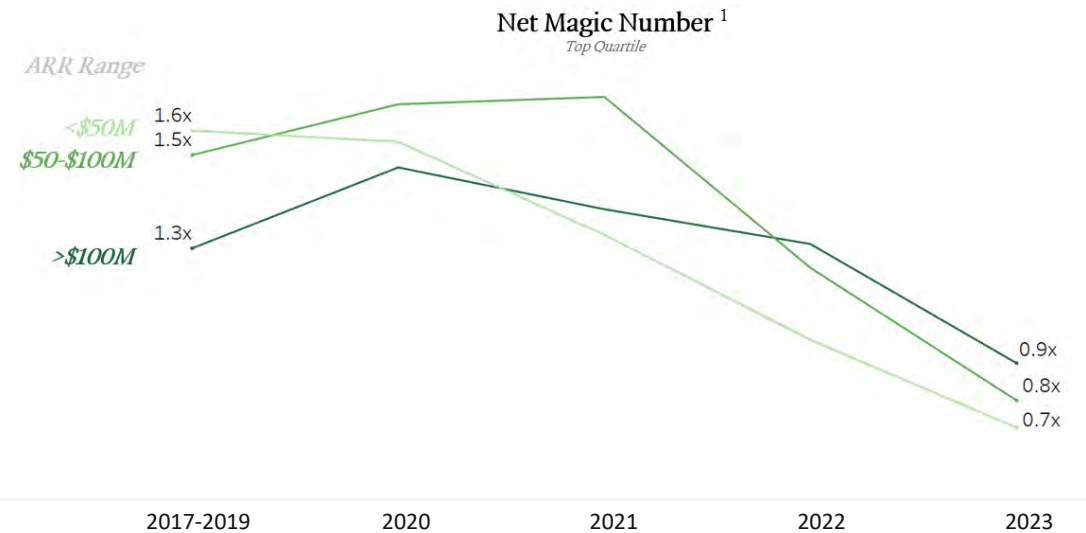
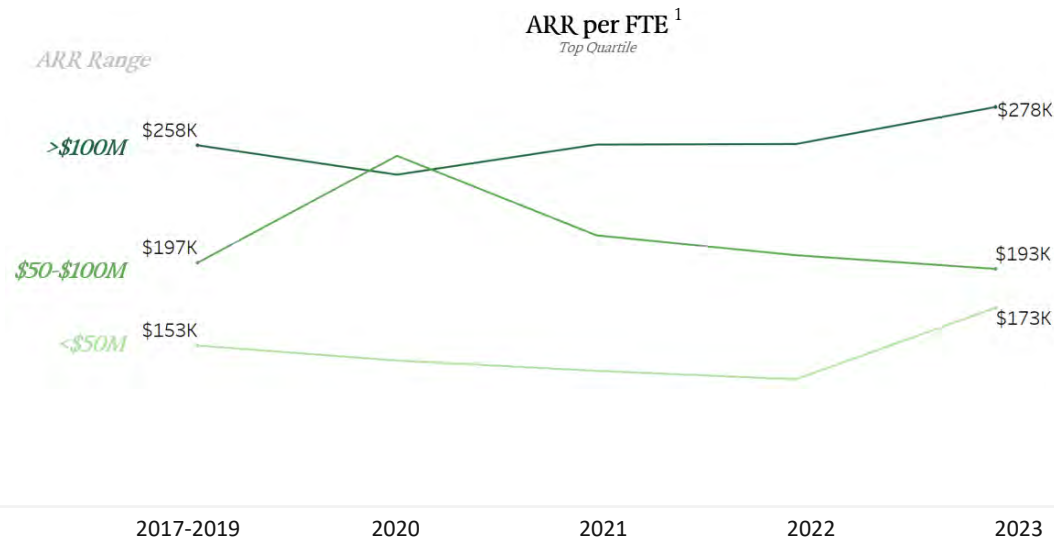


<sup>1</sup> Quarterly operating and financial data from the companies included

# Today's SaaS Landscape

## The Era of Efficient Growth

- As growth has slowed, companies have focused on finding ways to **reduce spend and extend runway** via levers such as hiring freezes, reductions in force (RIFs), tool rationalization, and performance management
- These efforts can be seen in **improvements to ARR per FTE**, likely driven by the organizational rightsizing many companies have undertaken
- Sales efficiency has declined as selling SaaS tools and platforms has become much more challenging in the current macro environment. This can be seen in the decrease in net magic number, **falling from peak multiples of 1.7x to <1.0x in 1H 2023**

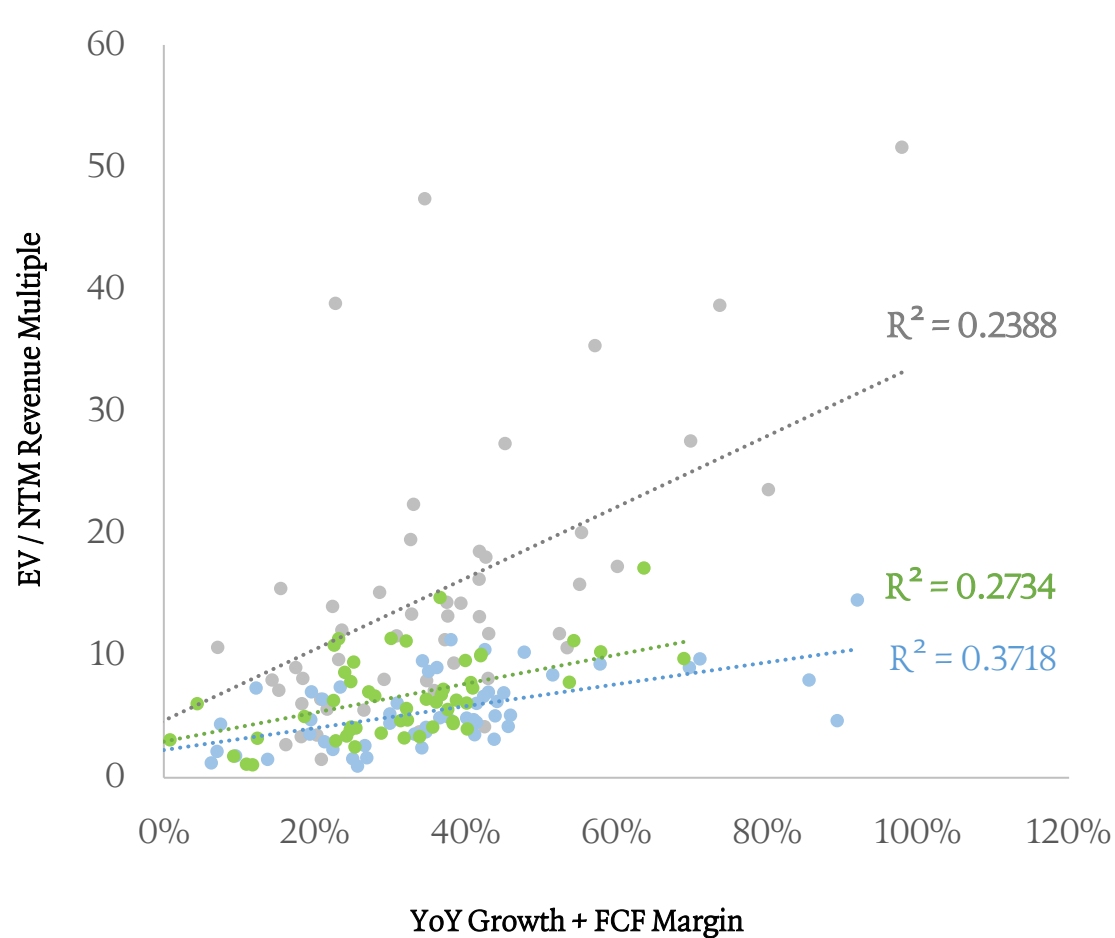


<sup>1</sup> Quarterly operating and financial data from the companies included

# The Trade-off between Growth vs Efficiency

Two-factor Regression: **EV/NTM Revenue vs Rule of 40<sup>1</sup>** (Revenue Growth and FCF Margin)

80 Public Enterprise SaaS Companies Across Three Time Periods<sup>2</sup>



	Rule of 40 R-squared	Median Public SaaS Multiple	Revenue Growth Coefficient	FCF Margin Coefficient
June 2023	0.27	5.1x	11.8	6.7
Dec 2022	0.37	4.9x	4.3	5.4
Dec 2021 <sup>3</sup>	0.24	10.6x	31.8	4.9

As of June 2023, forward revenue growth is the primary driver of valuation in the public markets.

Coefficients measure the slope of the linear relationship between different variables. From December 2021 to June 2022, **the relative importance of profitability increased significantly**. FCF margin had a larger impact on public multiples than revenue growth in June 2022, as shown by the greater coefficient in the table above. However, **the balance has shifted back towards growth as the primary driver of valuation**. As of June 2023 revenue growth once again had a larger impact on public multiples than FCF margin.

R-squared measures the amount of variation in the data that is explained by the model. Rule of 40 (a measure of both growth and efficiency) has improved in correlation to forward multiples over time, indicating that **sustainable and efficient growth is still important**.

<sup>1</sup> YoY ARR growth + FCF margin

<sup>2</sup> Valuation data from all enterprise SaaS IPOs 2H 2013-2H 2023 and 42 ICONIQ Growth private portfolio companies where data available for all metrics

<sup>3</sup> Peak of SaaS multiples

# THE ICONIQ GROWTH Enterprise Five

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

**1** YoY ARR Growth  
*(EOP ARR – prior year EOP ARR) / prior year EOP ARR*

**2** Net \$ Retention  
*(BOP ARR + expansion ARR - gross churn ARR) / BOP ARR*

**3** Rule of 40  
*YoY ARR growth + FCF margin<sup>2</sup>*

**4** Net Magic Number  
*Current Q net new ARR / prior Q S&M OpEx<sup>3</sup>*

**5** ARR per FTE  
*EOP ARR / EOP FTEs*

## Median & Top Quartile Performance by ARR Range<sup>1</sup>

Median Top Quartile

	<\$25M	\$25-\$50M	\$50-\$100M	\$100-\$200M	\$200M to IPO	Post-IPO <sup>4</sup>
YoY ARR Growth	125% 240%	90% 130%	70% 100%	50% 70%	40% 60%	45% 70%
Net \$ Retention	105% 125%	110% 120%	110% 125%	110% 120%	110% 115%	120% 130%
Rule of 40	Less Relevant	Less Relevant	25% 55%	15% 45%	30% 50%	45% 70%
Net Magic Number	0.8x 1.7x	0.8x 1.2x	0.9x 1.4x	0.8x 1.2x	0.6x 1.1x	0.8x 1.6x
ARR per FTE	\$95K \$135K	\$140K \$190K	\$175K \$215K	\$200K \$235K	\$220K \$255K	\$270K \$345K

Given the current environment, we expect that **median benchmarks shown here will be more realistic for companies to target in 2023**, but have included top quartile as reference for “best in class” performance regardless of time period

<sup>1</sup> Quarterly operating and financial data from the companies included

<sup>2</sup> Alternative Rule of 40 calculations include YoY Revenue Growth and EBITDA Margin

<sup>3</sup> Quarter of S&M OpEx utilized in magic number calculations should depend your company's sales cycle

<sup>4</sup> Within 2 fiscal years after IPO



### The ICONIQ Growth 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



# A Framework for SaaS Valuation

Growth and efficiency are not the only drivers of valuation and there are various other factors that affect SaaS valuation in both the private and public markets. Based on a multivariable regression analysis of current multiples for 80 public SaaS companies<sup>1</sup> and the ICONIQ Growth private portfolio, below is a framework to think about which metrics and business priorities drive valuation in the current market.

## Five Metrics Most Correlated With Valuations<sup>1</sup>

### 1 Revenue Growth



### 2 Net Dollar Retention



### 3 Gross Margin



### 4 Profitability



### 5 Market Dynamics



## Key Valuation Drivers

What is your historical and projected growth? How does the product vision, market, and execution affect the sustainability and predictability of your growth?

[Page 23](#)

How are you growing recurring revenue and driving expansion of existing customers? How are you managing churn and downsell?

[Page 26](#)

What does performance look like on a per-unit basis? How does your gross margin affect growth and profitability?

[Page 44](#)

Do you have line of sight into or a clear path to profitability? What does your burn look like in comparison to net new dollars being generated?

[Page 48](#)

What is your total addressable market and how are you driving expansion? How do competitive factors impact your future growth prospects?

<sup>1</sup> Valuation data from all enterprise SaaS IPOs 2H 2013-2H 2023 and 42 ICONIQ Growth private portfolio companies where data available for all metrics

# What's Changed

In our 4<sup>th</sup> year of publishing this report, we dive into which key growth and efficiency metrics have stayed consistent and which ones have changed over the last year

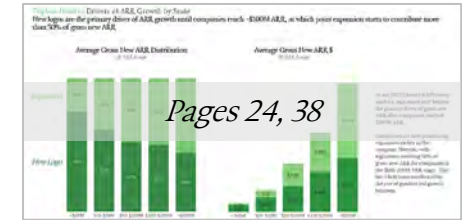
## The Pace of Growth<sup>1</sup>

2022 and 2023 have had a significant impact on SaaS performance, with **median and top quartile benchmarks for growth and retention metrics dropping significantly**. Last year, we remarked on how top quartile SaaS companies have generally grown 2.0x-2.5x year-over-year until \$100M ARR; **the rate of ARR growth has now slowed to 1.0x-1.5x** with the addition of 2022-23 datapoints.



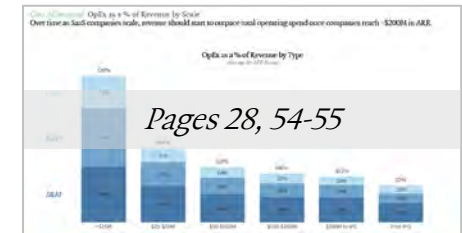
## Growth Drivers

In our 2022 analysis, expansion only became the primary driver of gross new ARR after companies reached \$200M ARR. Companies are now **prioritizing expansion earlier in the company lifecycle**, with expansion exceeding 50% of gross new ARR as **early as the \$100M ARR range**, a trend that has likely been accelerated by the rise of product-led growth. In addition to this focus on existing customers, many SaaS companies are also exploring channel and partnership strategy to accelerate growth.



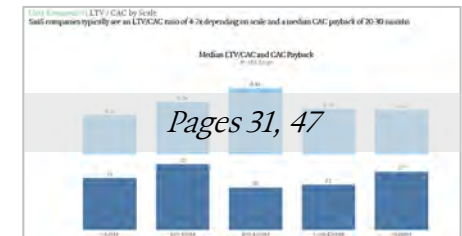
## Spend and Burn

Renewed focus on efficiency and path to profitability have started to **move the needle on both gross and FCF margins**; however, the **pace and scale of spend reductions do not seem to have matched the speed at which growth slowed** leading to efficiency metrics like Rule of 40 and magic number dropping across the board. **Average spend per FTE has also increased** since last year's report, likely driven by a competitive job market in 2022 and inflationary pressure. However, cost **allocation across G&A, S&M, and R&D has stayed consistent with prior years** with S&M continuing to make up ~50% of total spend.



## GTM Efficiency

Budget constraints, increased scrutiny on the purchase of discretionary software tools, and tool rationalization / consolidation are among the many factors that have made selling SaaS harder, **impacting both GTM efficiency and customer health**. This has resulted in **declines to magic number and expected customer lifetime**, in addition to increased payback periods for customer acquisition. Explore more benchmarks on best in class go-to-market strategy and efficiency in our [GTM series](#).



<sup>1</sup> Quarterly operating and financial data from the companies included

# Four Predictions for 2024 (and Beyond)<sup>1</sup>

## 1 The rise of usage-based pricing

Usage-based pricing (UBP) will soon become more prevalent, especially as SaaS products focus on driving efficiency for organizations and will **need to price based on value rather than seats**. However, as UBP is inherently volatile, we expect to see **significant fluctuations and much higher ranges in net dollar retention** in parallel with market changes

[Page 37](#)

## 2 Expansion becomes the primary driver of 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 and likely most significant portion of new ARR** going forward.

[Page 38](#)

## 3 The Rule of 60

The 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. We are already starting to see organizations accomplishing tasks that would've normally taken weeks in a matter of days.

[Page 50](#)

## 4 Profitability before IPO

**Best-in-class companies will hit profitability sooner** (within 6-7 years after reaching \$10M ARR or 3-4 years after reaching \$100M ARR), likely even before going public, rather than the historical precedent of most SaaS companies being un-profitable at IPO.

[Page 48](#)

<sup>1</sup> Quarterly operating and financial data from the companies included

# A Framework for Navigating Unpredictability

In times of volatility, we recognize that the Enterprise Five is not a comprehensive framework of health for companies who need to move quickly and understand which business levers to prioritize. Below are five metrics we recommend all SaaS companies evaluate as measures of resiliency as they navigate periods of market unpredictability, which together comprise “The Resiliency Rubric.”

## 1 Quick Ratio

Quick ratio measures how efficiently a company is growing by comparing bookings growth against contraction. This metric can be particularly relevant for early-stage businesses where metrics like Rule of 40 are typically less applicable due to the speed of growth and aggressive spend.

## 2 Topline Attainment

One of the most important measures of business predictability is topline attainment, which measures the actual dollars achieved each quarter against the original plan set at the beginning of the year. This metric becomes particularly critical as companies scale and approach IPO, as company performance to plan heavily impacts analyst sentiment and stock price.

## 3 Burn Multiple

Burn multiple measures the effectiveness of capital expenditures by comparing to the net new revenue being generated each quarter. During times of uncertainty, SaaS companies need to develop a leaner organization muscle that favors efficiency and extends runway.

## 4 CAC Payback

CAC payback measures how long it takes to break even on acquiring a new customer and is an additional measure of sales efficiency. It is important to note that this metric will vary based on sales motion, customer segment, and other business model nuances.

## 5 Productivity Ratio

The productivity ratio can help inform business decisions around hiring or reductions in force in times of uncertainty and highlights the tradeoffs between headcount, revenue growth, and profitability.

# THE ICONIQ GROWTH Resiliency Rubric

*Legend*  
Median Top Quartile

## [What is the Resiliency Rubric?](#)

Read about why we believe it's so important for SaaS companies to start tracking these 5 metrics in the current market.

In addition to the Enterprise Five, we recommend SaaS companies keep in mind these additional metrics that will drive resilience in times of volatility

### Median & Top Quartile Performance by ARR Range<sup>1</sup>

	<\$25M	\$25-\$50M	\$50-\$100M	\$100-\$200M	\$200M to IPO	Post-IPO <sup>5</sup>
<b>1</b> Quick Ratio <i>Gross New ARR / Gross Churned ARR</i>	8x 19x	5x 16x	6x 11x	5x 10x	4x 6x	Low N-Size
<b>2</b> Topline Attainment <i>Actuals as % of annual plan, net new cumulative bookings</i>	Companies should aim to achieve 100% quarterly net new attainment of their topline plan, regardless of scale. Top performers have managed to stay in the 80-100% range regardless of scale in the current environment.					
<b>3</b> Burn Multiple <i>FCF / Net New ARR<sup>1</sup></i>	2.0x 1.1x	1.6x 0.7x	0.9x 0.5x	1.1x 0.6x	0.9x 0.4x	0.3x 0.2x
<b>4</b> CAC Payback <i>CAC / (New MRR x Gross Margin)<sup>2</sup></i>	22 10	28 15	20 13	19 14	34 19	12 8
<b>5</b> Productivity Ratio <i>ARR per FTE / OpEx per FTE<sup>3</sup></i>	0.5x 0.7x	0.7x 0.8x	0.9x 1.1x	1.0x 1.3x	1.2x 1.4x	1.2x 1.5x

Given the current environment, we expect that **median benchmarks shown here will be more realistic for companies to target in 2023**, but have included top quartile as reference for “best in class” performance regardless of time period

<sup>1</sup> Quarterly operating and financial data from the companies included

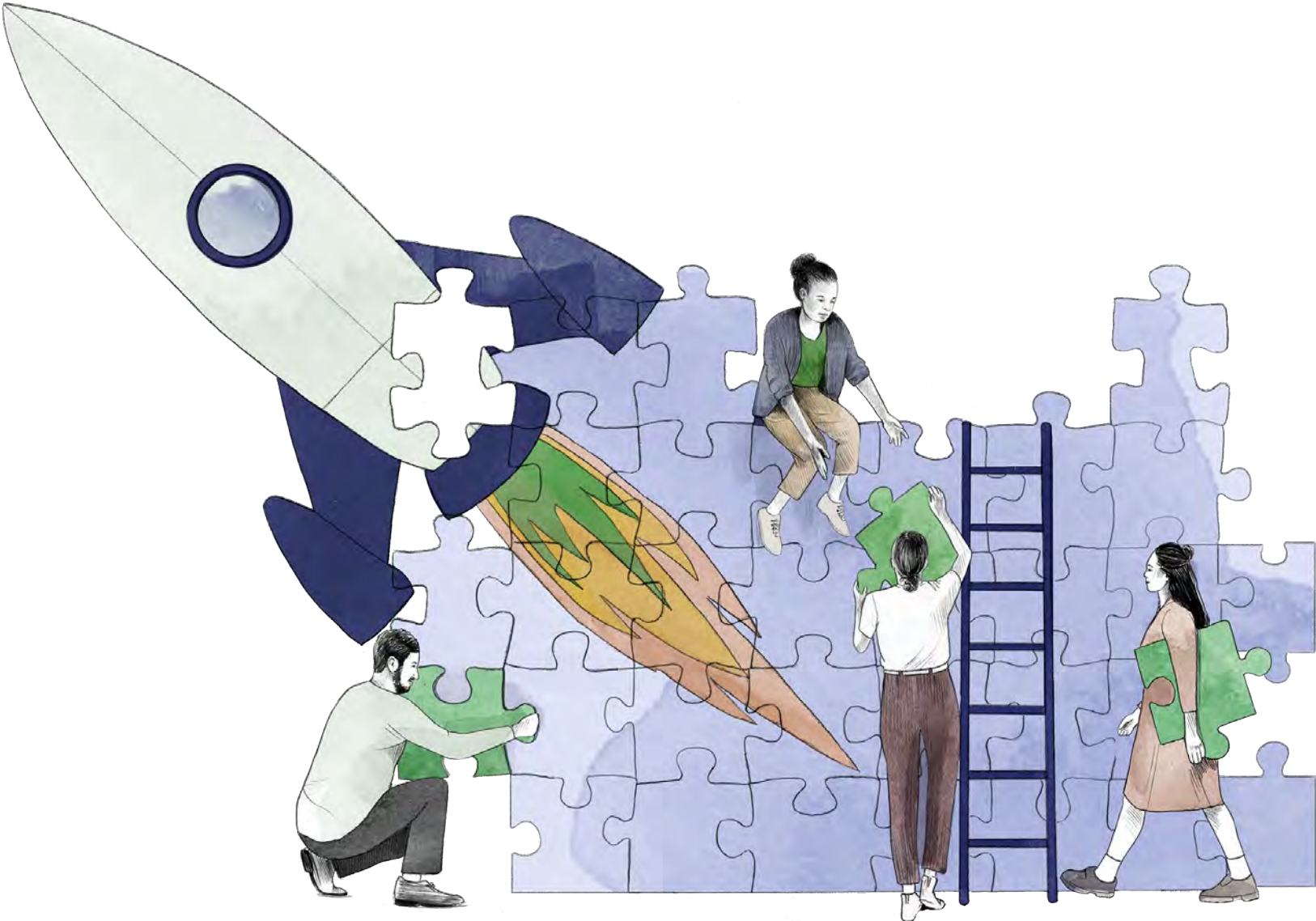
<sup>2</sup> Non-profitable companies only

<sup>3</sup> CAC Payback shown in months. Overall gross margin reflects customer support

<sup>4</sup> The productivity ratio = ARR / OpEx. We believe it is topical to present the ratio in this format as companies continue to look at metrics on a per FTE basis post-RIF

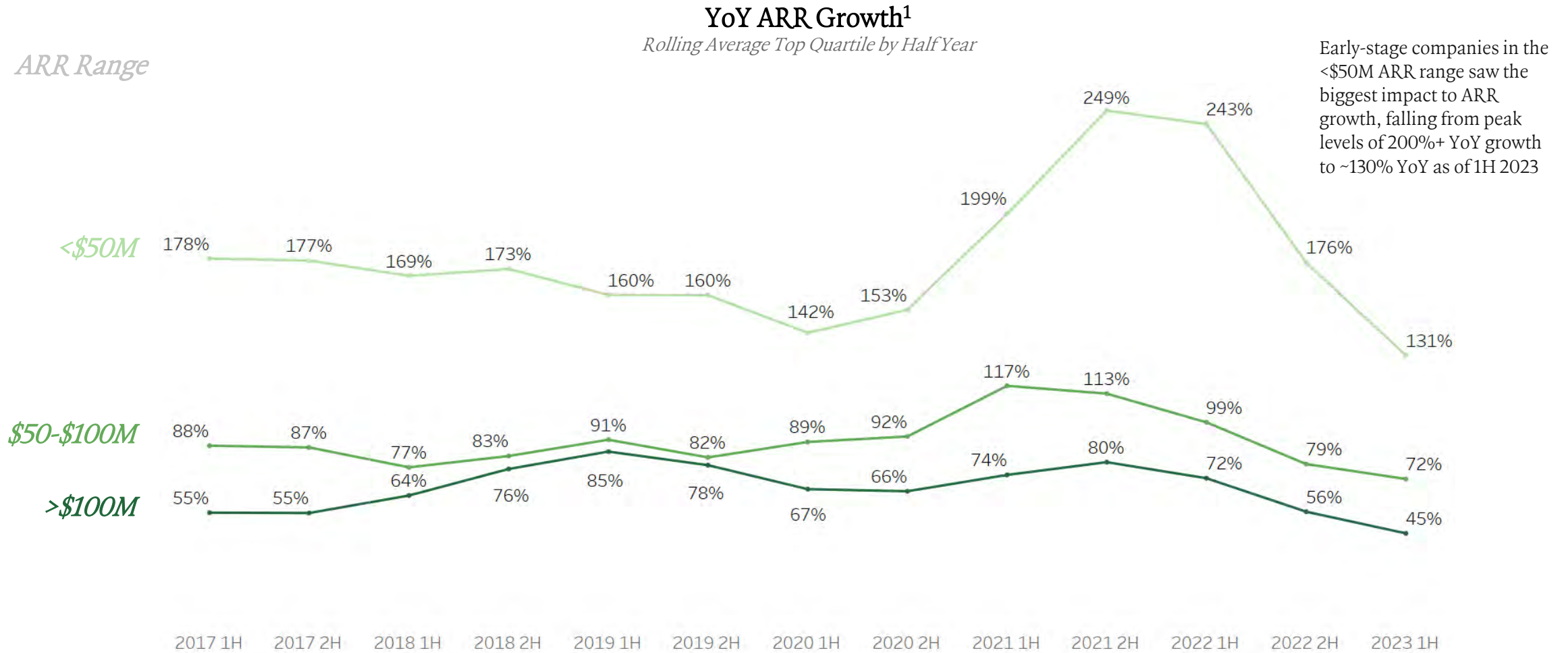
<sup>5</sup> Within 2 fiscal years after IPO

# The SaaS Landscape



## The SaaS Landscape | YoY Growth

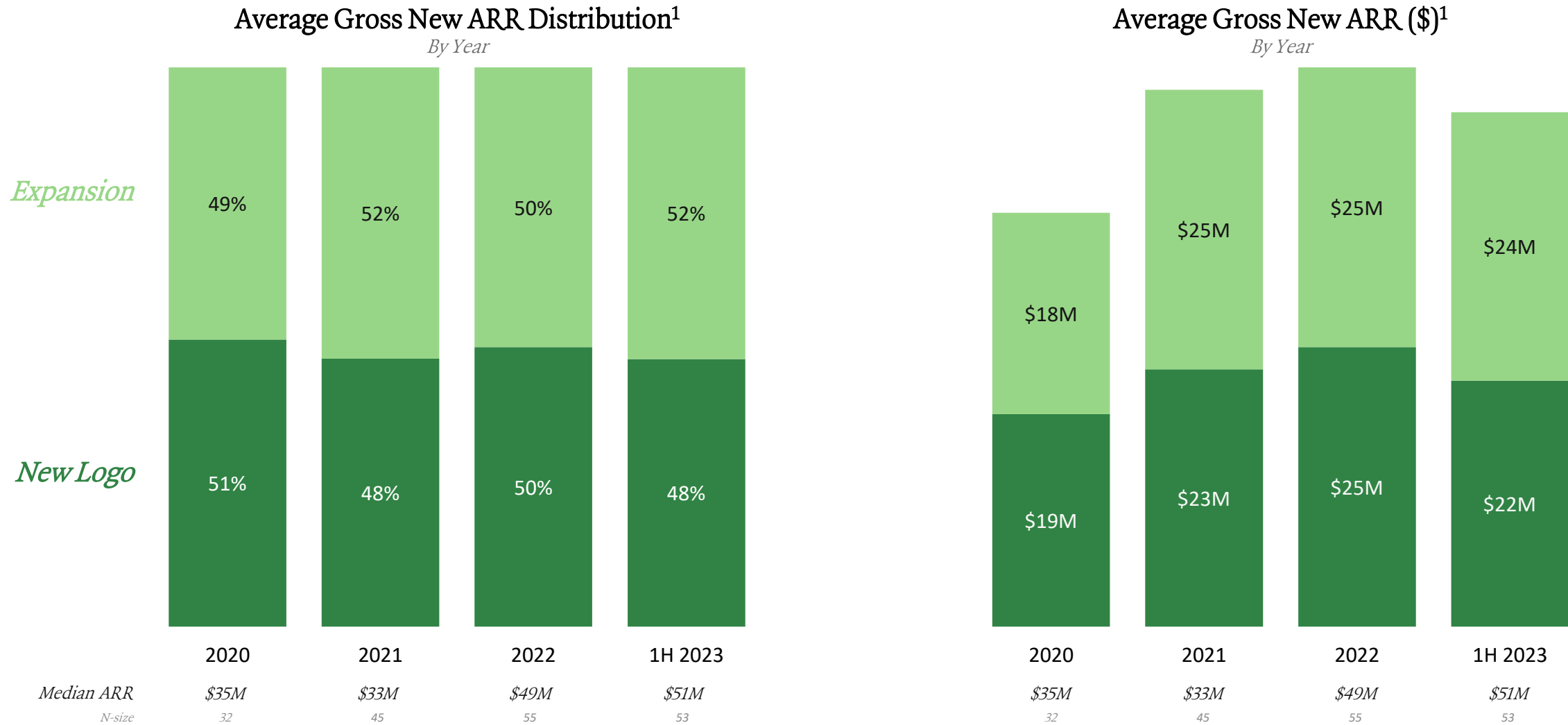
Over the past few quarters, topline growth has decelerated for companies amidst a challenging macro environment, with the first half of 2023 seeing continued degradation



<sup>1</sup> Quarterly operating and financial data from the companies included

# The SaaS Landscape | Drivers of ARR Growth

While the mix of expansion and new logo has stayed consistent, the absolute dollars have dropped in the first half of 2023



<sup>1</sup> Quarterly operating and financial data from the companies included

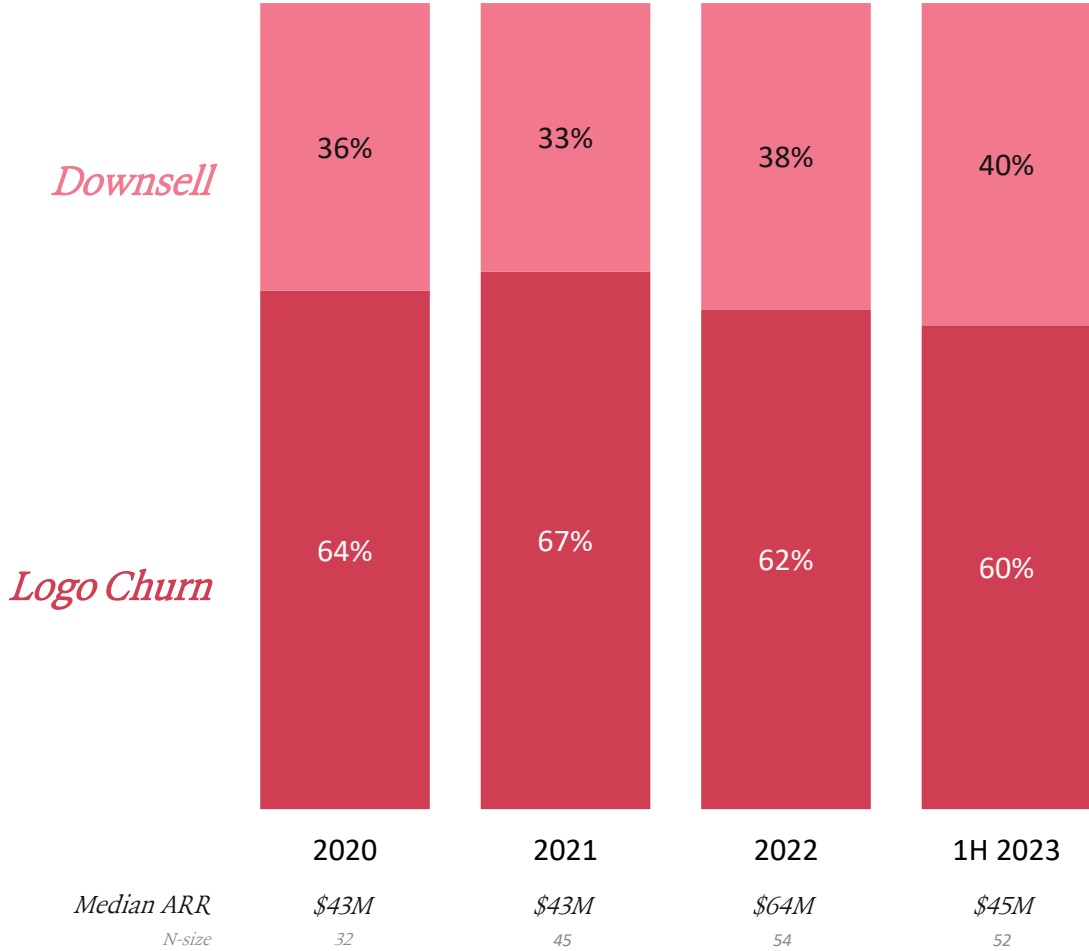


# The SaaS Landscape | Drivers of Churn

Both logo churn and downsell have increased significantly since 2021, and to even higher rates than 2020 – another year impacted by macro volatility

### Average Gross Churn Distribution<sup>1,2</sup>

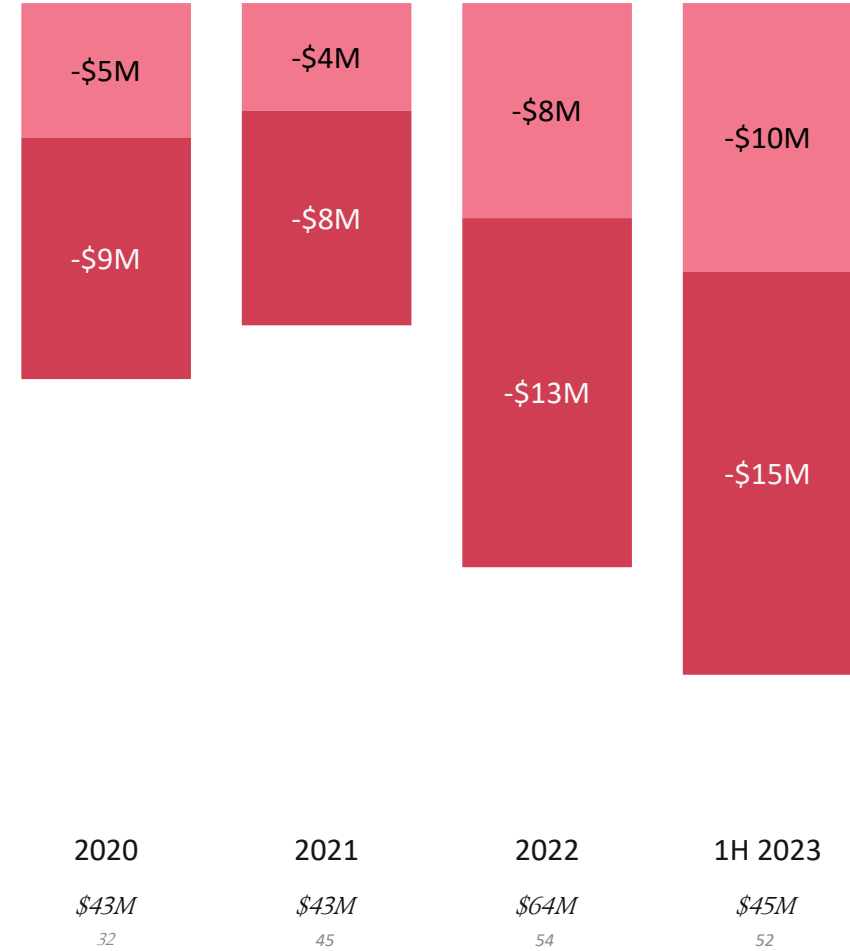
By Year



Average 2023 downsell on an absolute \$ basis has been double that of 2020, another year impacted by significant macro uncertainty. This is not only due to a laser focus on efficiency in 2023. Companies have a need for fewer licenses due to widespread reductions in headcount.

### Average Annualized Gross Churn<sup>1,2</sup>

By Year



Median ARR  
N-size

Year	2020	2021	2022	1H 2023
Median ARR	\$43M	\$43M	\$64M	\$45M
N-size	32	45	54	52

Year	2020	2021	2022	1H 2023
Median ARR	\$43M	\$43M	\$64M	\$45M
N-size	32	45	54	52

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

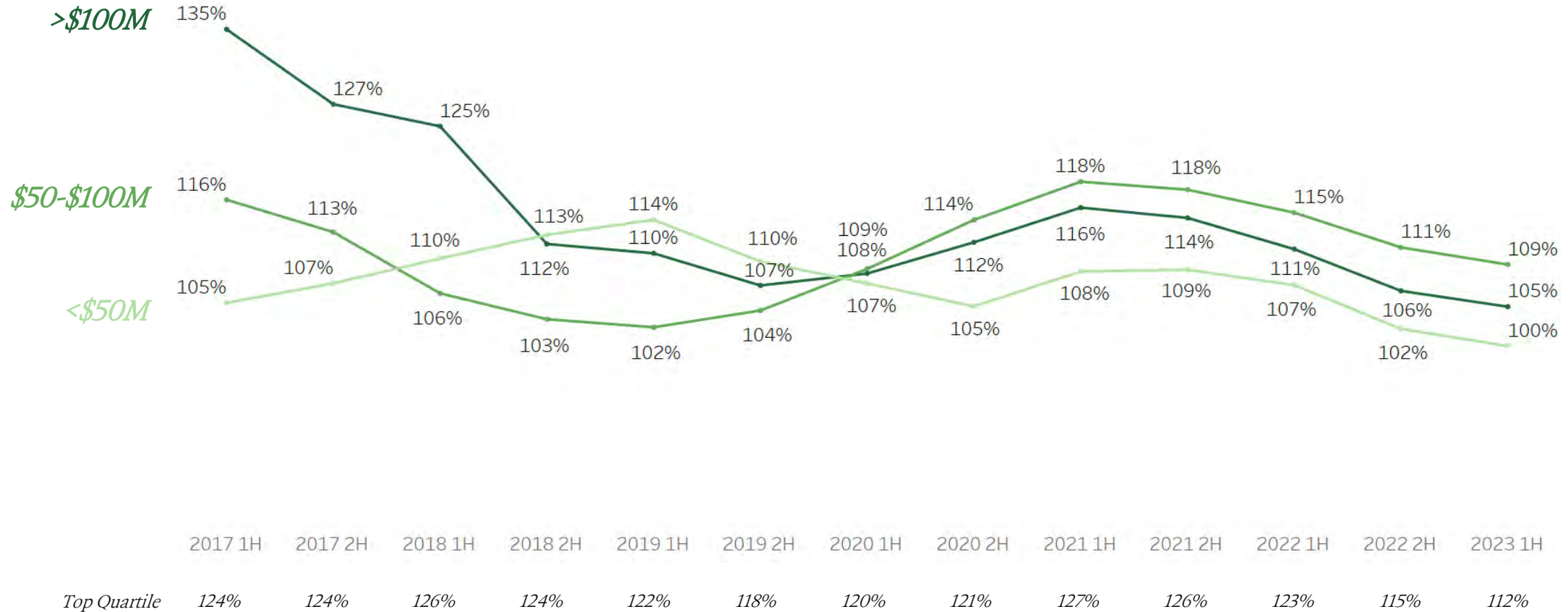
# The SaaS Landscape | Net Dollar Retention

As a result, median net dollar retention has been impacted, falling from peak levels of 130+% in 2017 to ~105% as of 1H 2023

## Median Net Dollar Retention<sup>1</sup>

Rolling Median by Half Year

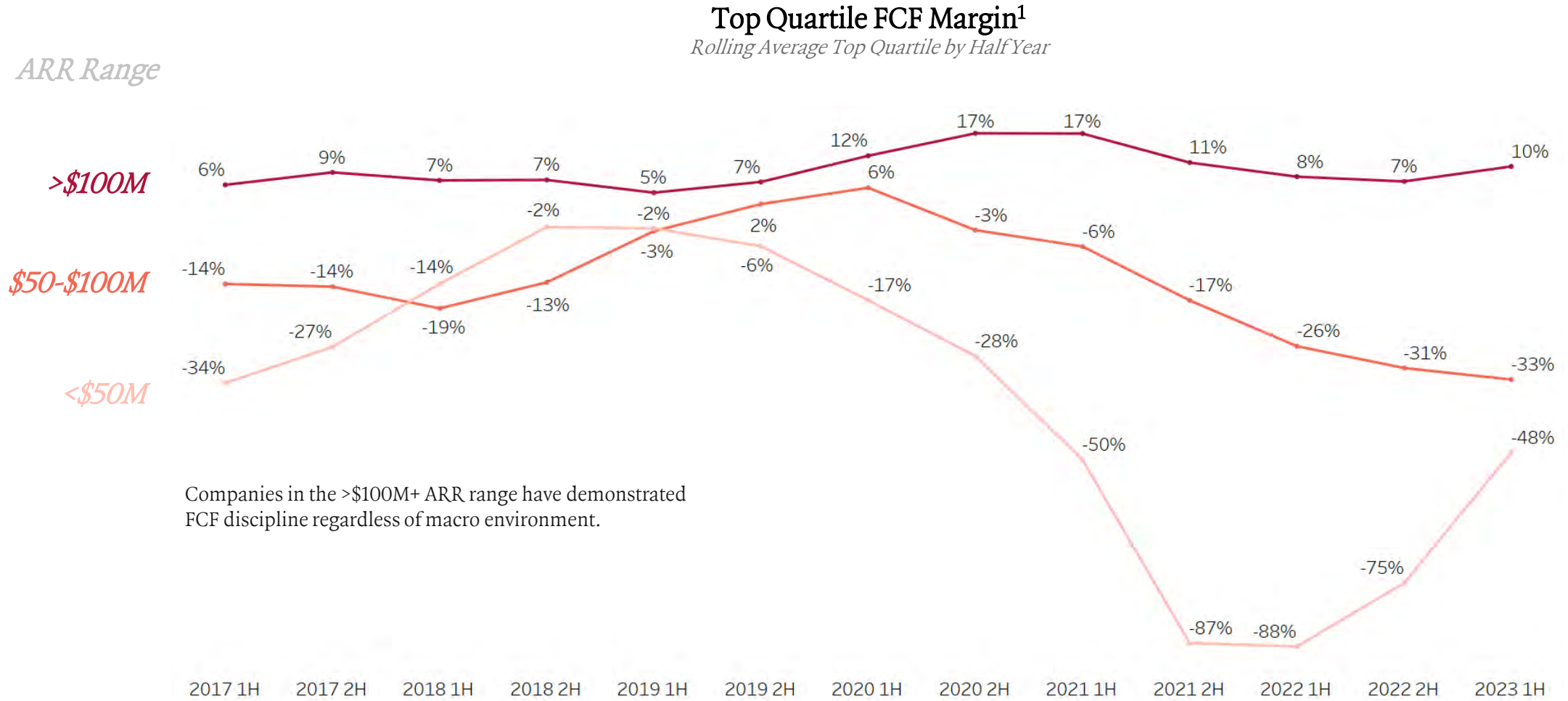
ARR Range



<sup>1</sup> Quarterly operating and financial data from the companies included

## The SaaS Landscape | FCF Margin

As companies have pivoted to improving profitability amidst the challenging macro environment, FCF margins have started to slowly increase over the last year



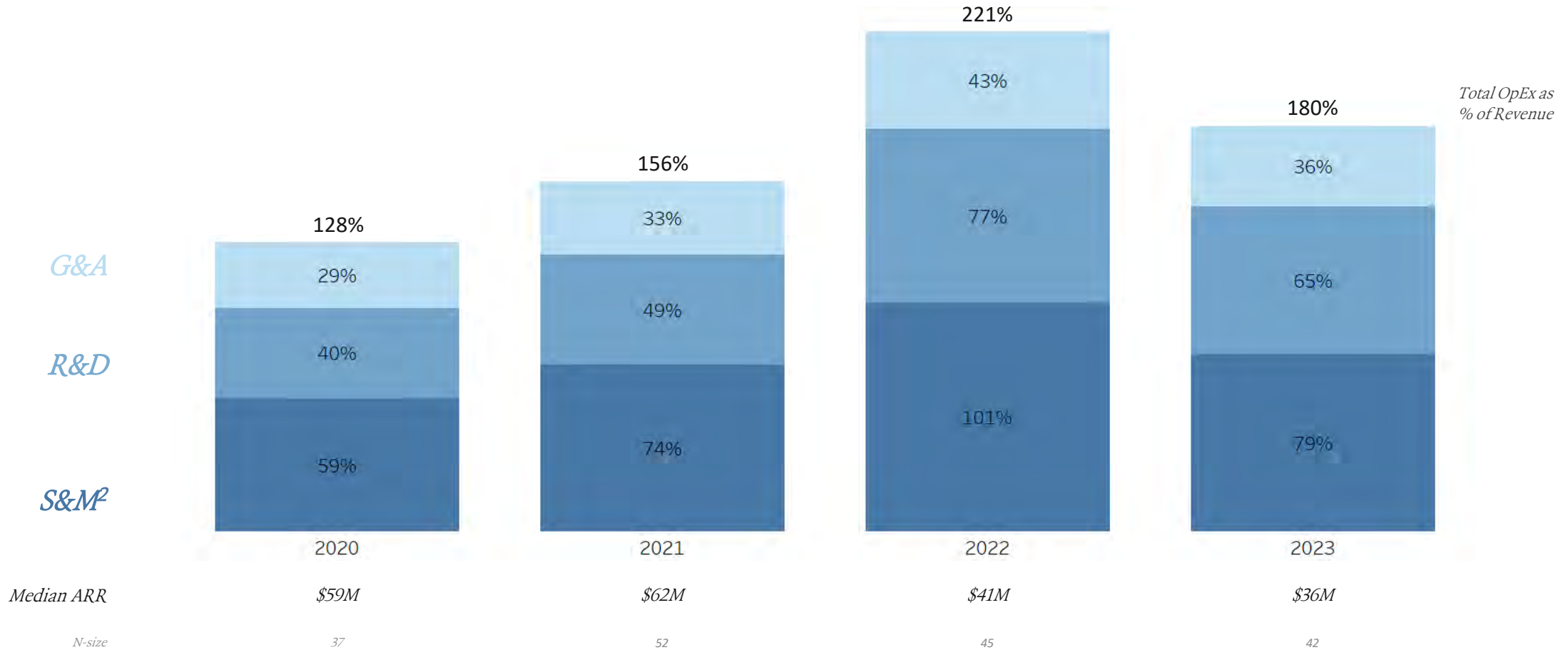
<sup>1</sup> Quarterly operating and financial data from the companies included

## SaaS Landscape | OpEx as a % of Revenue by Year

Cost-cutting measures are also evident in the reduction in spend as a % of revenue since 2022, with R&D seeing the biggest cut relative to prior years

### OpEx as a % of Revenue by Type<sup>1</sup>

Average by Year



<sup>1</sup> Quarterly operating and financial data from the companies included

<sup>2</sup> Total Sales & Marketing OpEx includes Customer Success

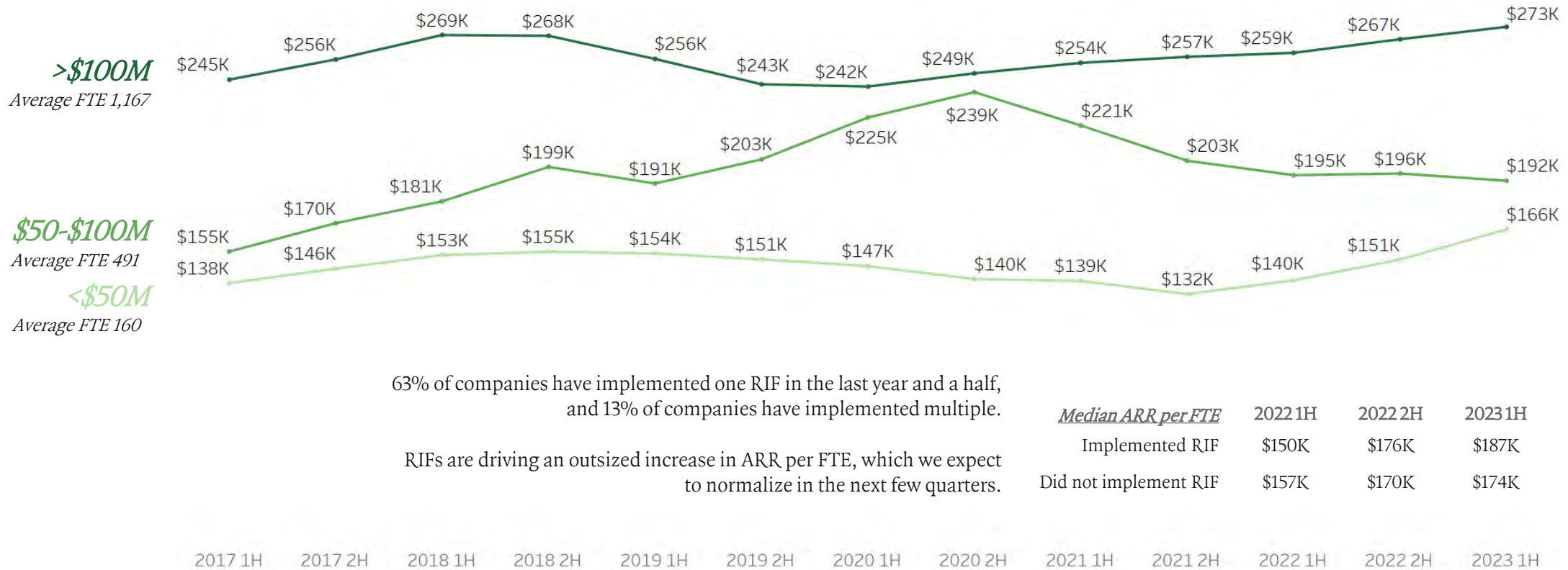
## The SaaS Landscape | Employee Productivity

As companies have implemented hiring slowdowns and reductions in force (RIFs), ARR per FTE also improved over the last few quarters; although we expect this to dip down as the impact of these changes normalize

### Top Quartile ARR per FTE<sup>1</sup>

Rolling Average Top Quartile by Half Year

#### ARR Range



63% of companies have implemented one RIF in the last year and a half, and 13% of companies have implemented multiple.

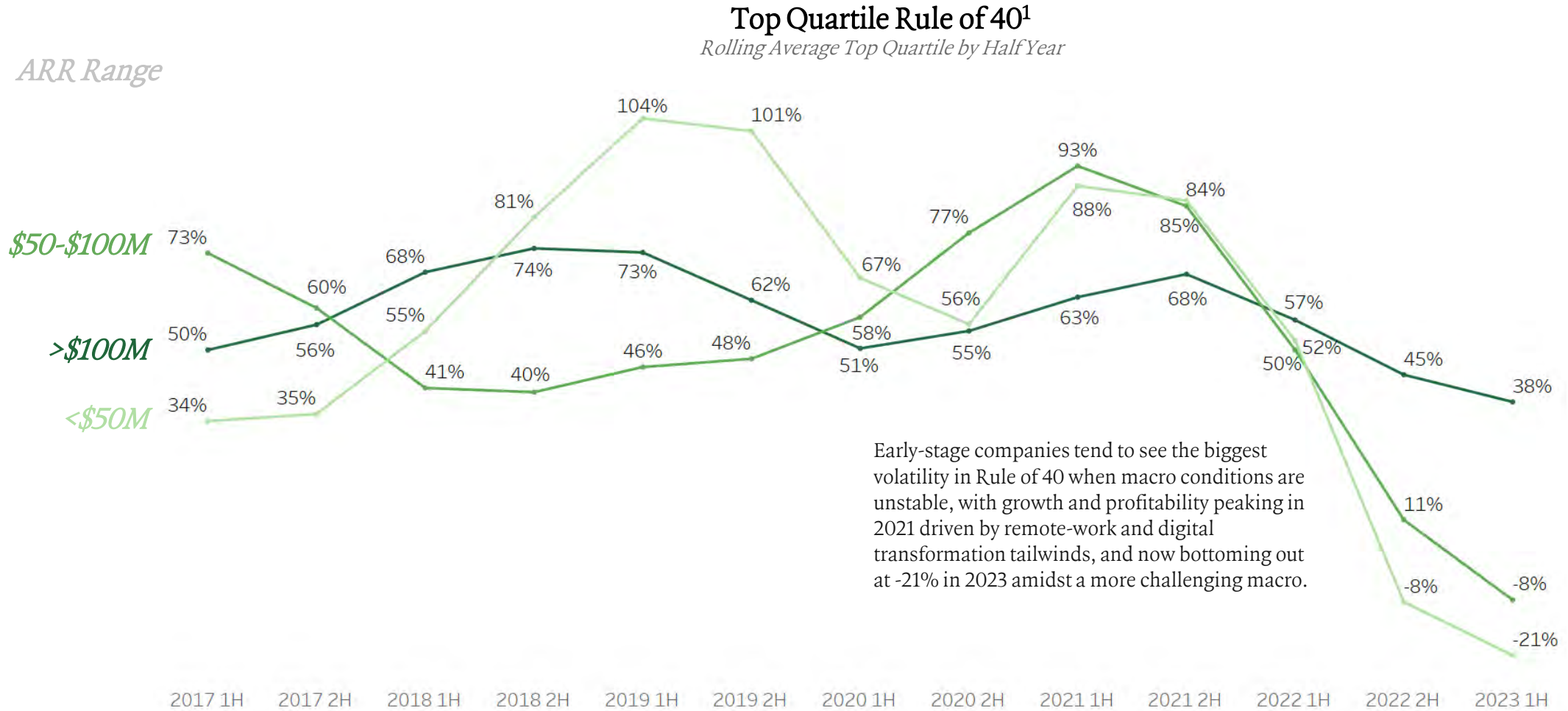
RIFs are driving an outsized increase in ARR per FTE, which we expect to normalize in the next few quarters.

<u>Median ARR per FTE</u>	2022 1H	2022 2H	2023 1H
Implemented RIF	\$150K	\$176K	\$187K
Did not implement RIF	\$157K	\$170K	\$174K

<sup>1</sup> Quarterly operating and financial data from the companies included

## The SaaS Landscape | Rule of 40

However, reductions in spend have either not been made quickly or dramatically enough to make up for the rapid slowdown in growth; Rule of 40 has continued to decline throughout 2022 and 2023



<sup>1</sup> Quarterly operating and financial data from the companies included

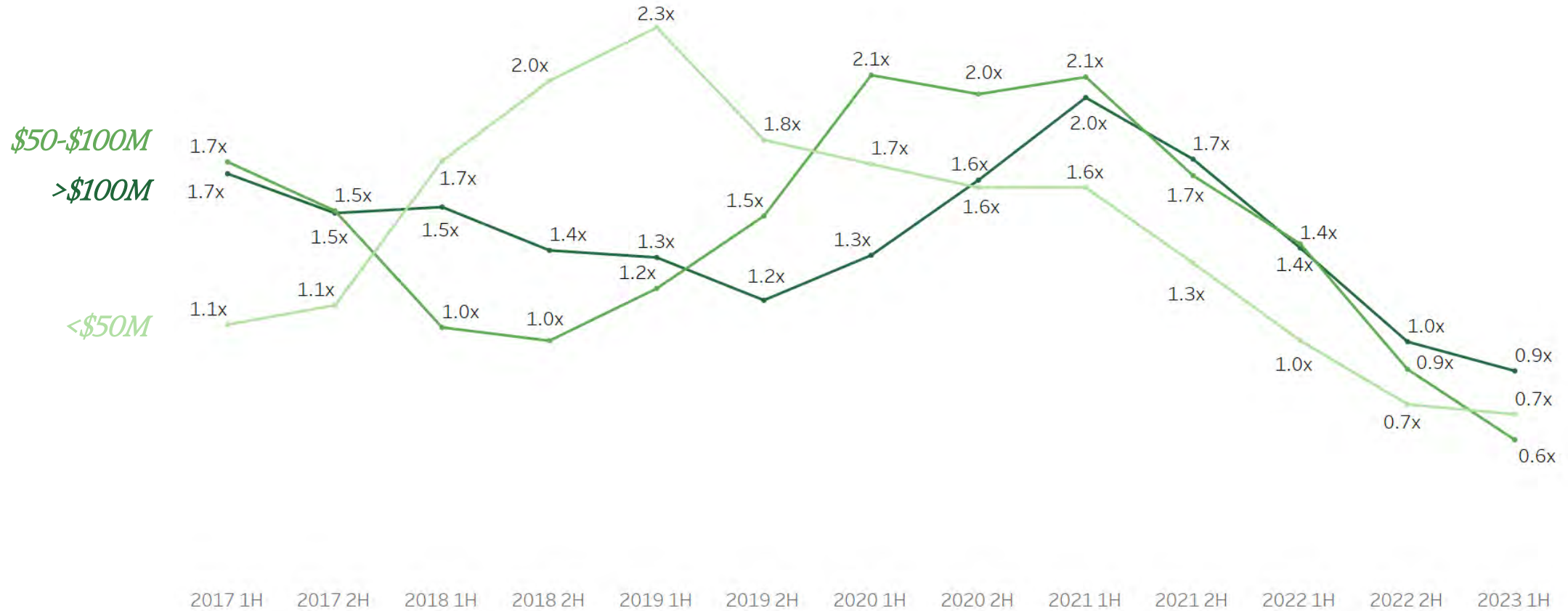
## The SaaS Landscape | Net Magic Number

Similarly, sales efficiency (represented here via net magic number) has also declined as selling SaaS tools and platforms has become much more challenging in the current macro environment

### Top Quartile Net Magic Number<sup>1</sup>

*Rolling Average Top Quartile by Half Year*

*ARR Range*

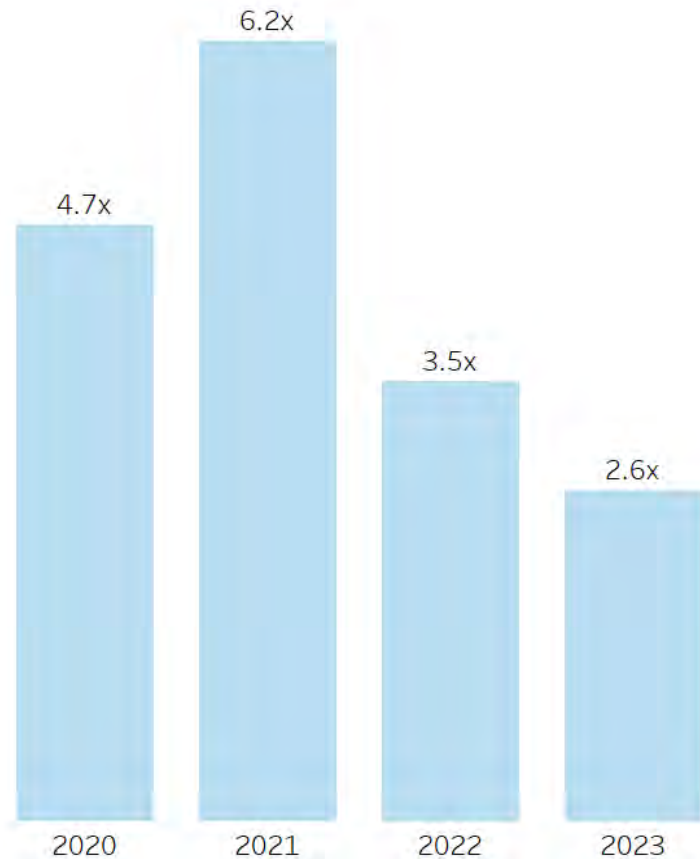


<sup>1</sup> Quarterly operating and financial data from the companies included

## The SaaS Landscape | LTV / CAC by Year

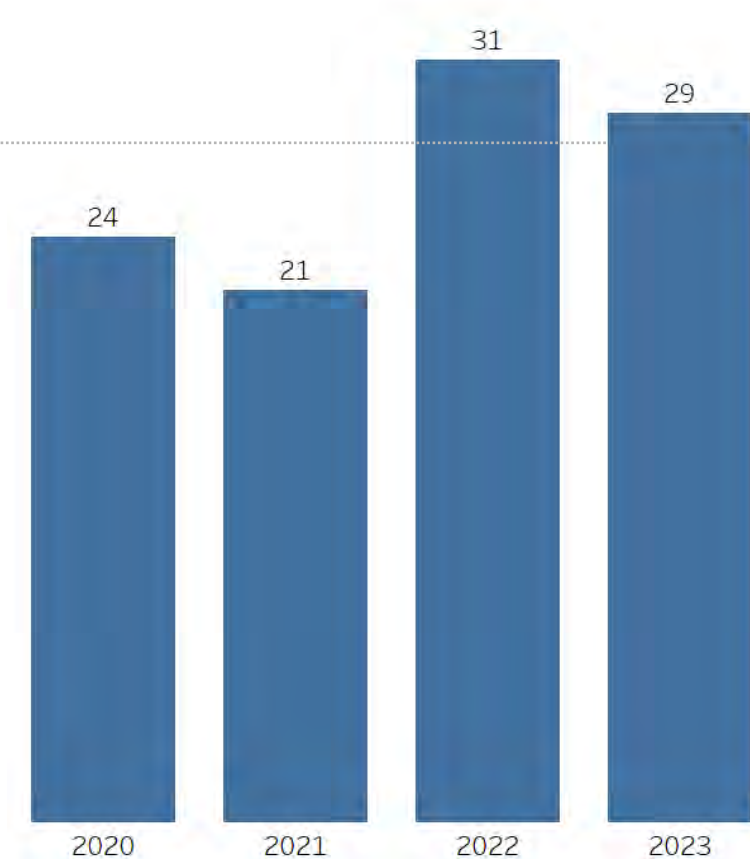
Customer acquisition continues to be challenging in 2023, with median LTV/CAC falling under 3x and CAC payback increasing to ~30 months

### Median LTV/CAC<sup>1</sup> By Year



As companies have taken a more rigorous assessment of new and existing software tools, new customer acquisition has proved challenging for SaaS businesses, with the return on sales & marketing dollars declining over the last year.

### Median CAC Payback<sup>1</sup> Months, By Year

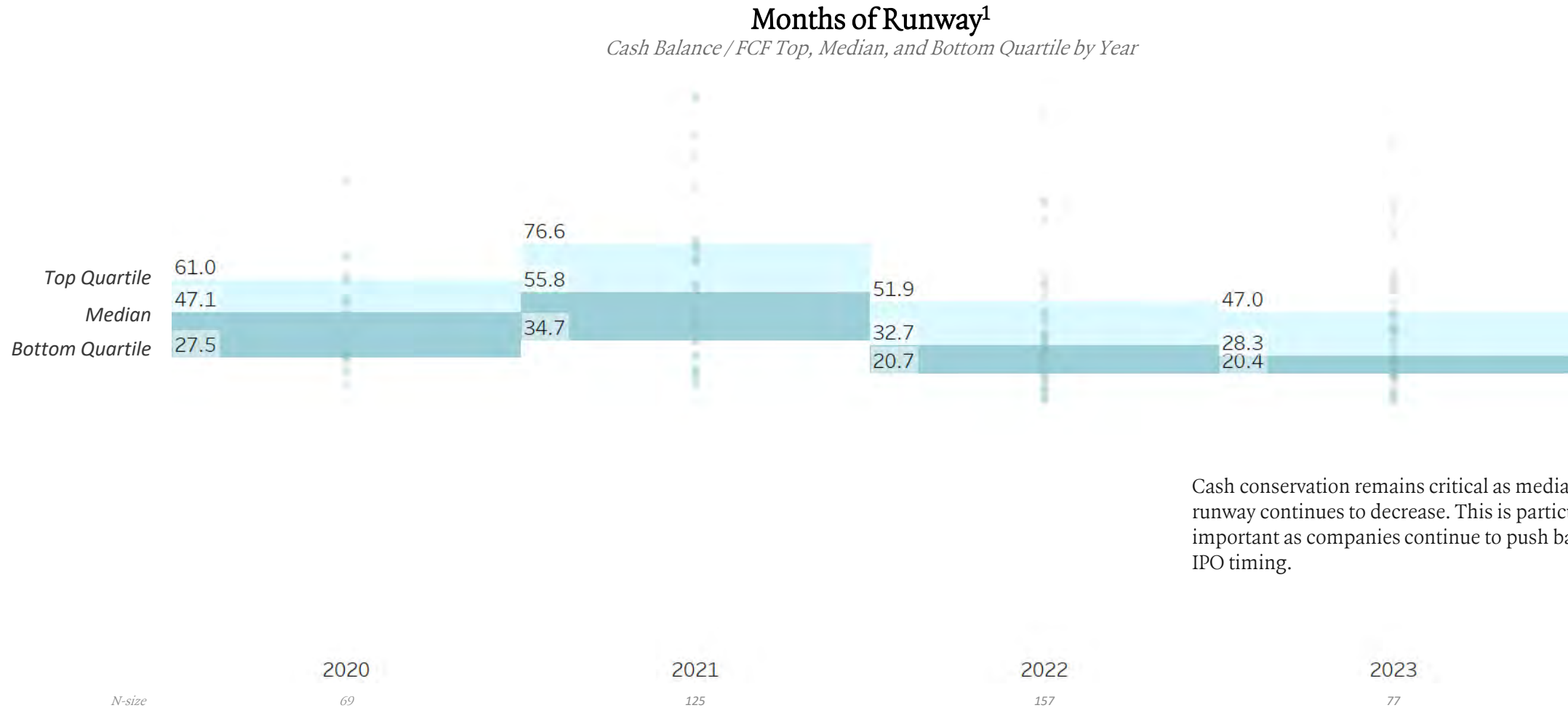


<sup>1</sup> Quarterly operating and financial data from the companies included



## The SaaS Landscape | Runway by Year

Runways and cash balances peaked in 2021 amidst a favorable fundraising market; as of 2023 however, median runway has declined to 28 months, implying that companies need to continue finding ways to preserve liquidity



Cash conservation remains critical as median runway continues to decrease. This is particularly important as companies continue to push back IPO timing.

<sup>1</sup> Quarterly operating and financial data from the companies included

# Best in Class Performance

*Drivers of Growth*  
*Efficiency*



# Drivers of Growth

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## Topline Health | ARR Growth since \$10M

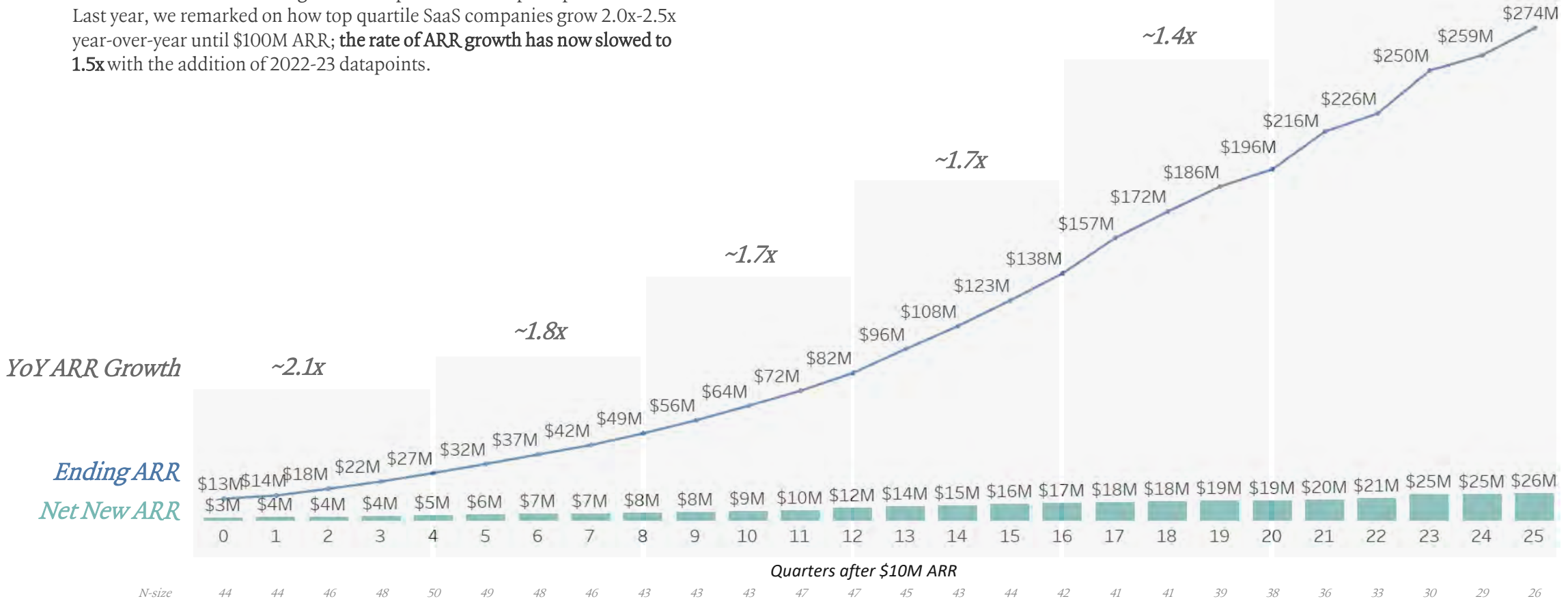
Enterprise SaaS companies with top performance in ARR growth grow around 1.5x each year until reaching \$100M ARR, at which point they are able to maintain YoY growth above 30% until IPO

### Top Quartile ARR Growth from \$10M to IPO<sup>1</sup>

Rolling Average Ending ARR by Company and Quarter Since \$10M

2022 and 2023 have had a significant impact on SaaS topline performance. Last year, we remarked on how top quartile SaaS companies grow 2.0x-2.5x year-over-year until \$100M ARR; **the rate of ARR growth has now slowed to 1.5x** with the addition of 2022-23 datapoints.

Typical IPO Range



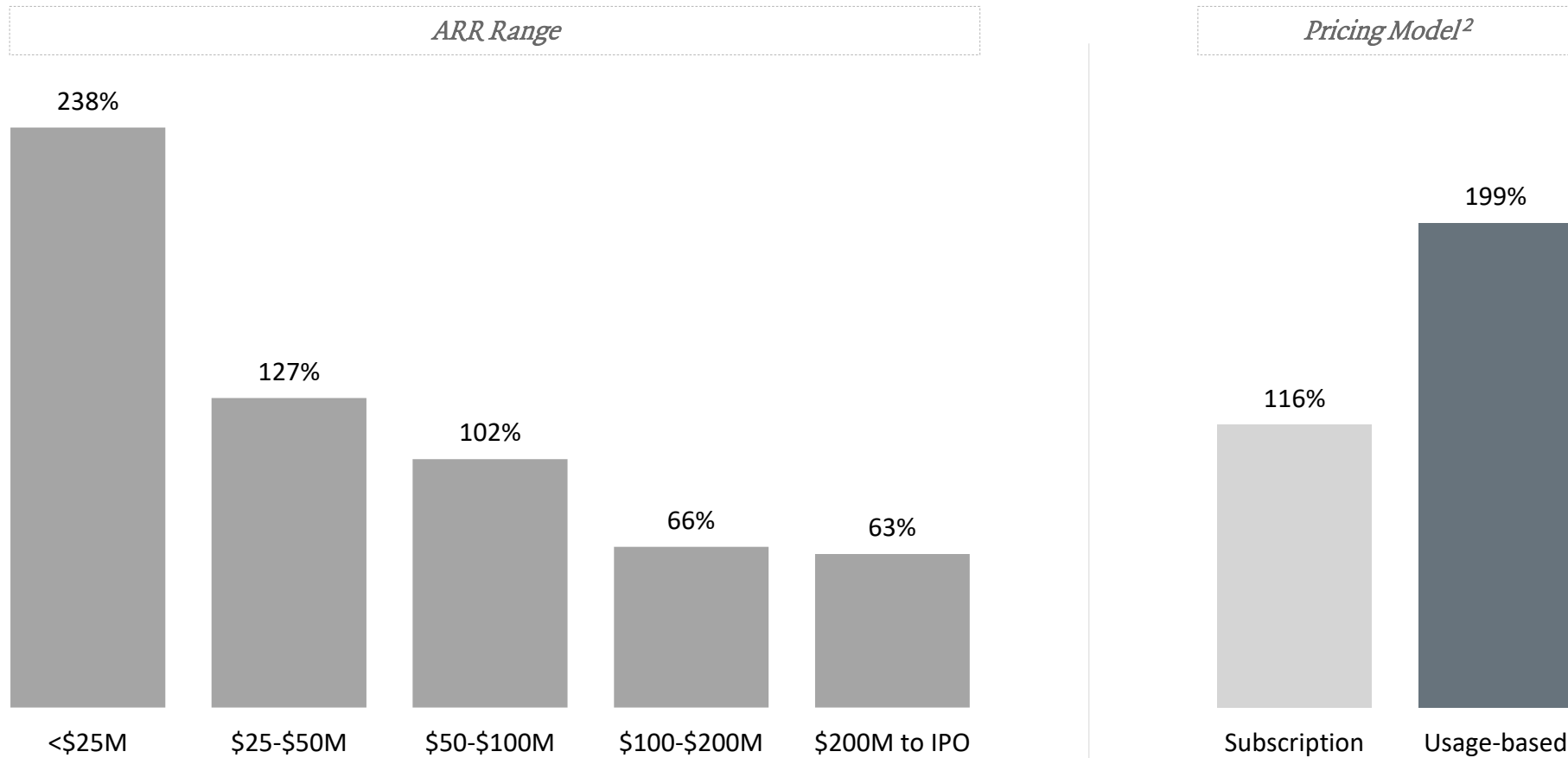
<sup>1</sup> Quarterly operating and financial data from the companies included

## Topline Health | ARR Growth Rate

Growth rate decreases as companies scale; Enterprise SaaS companies with top performance in ARR growth that utilize usage-based pricing models experience ~200% YoY growth

### Top Performance ARR Growth Rate<sup>1</sup>

*By ARR Range and Pricing Model*



<sup>1</sup> Quarterly operating and financial data from the companies included

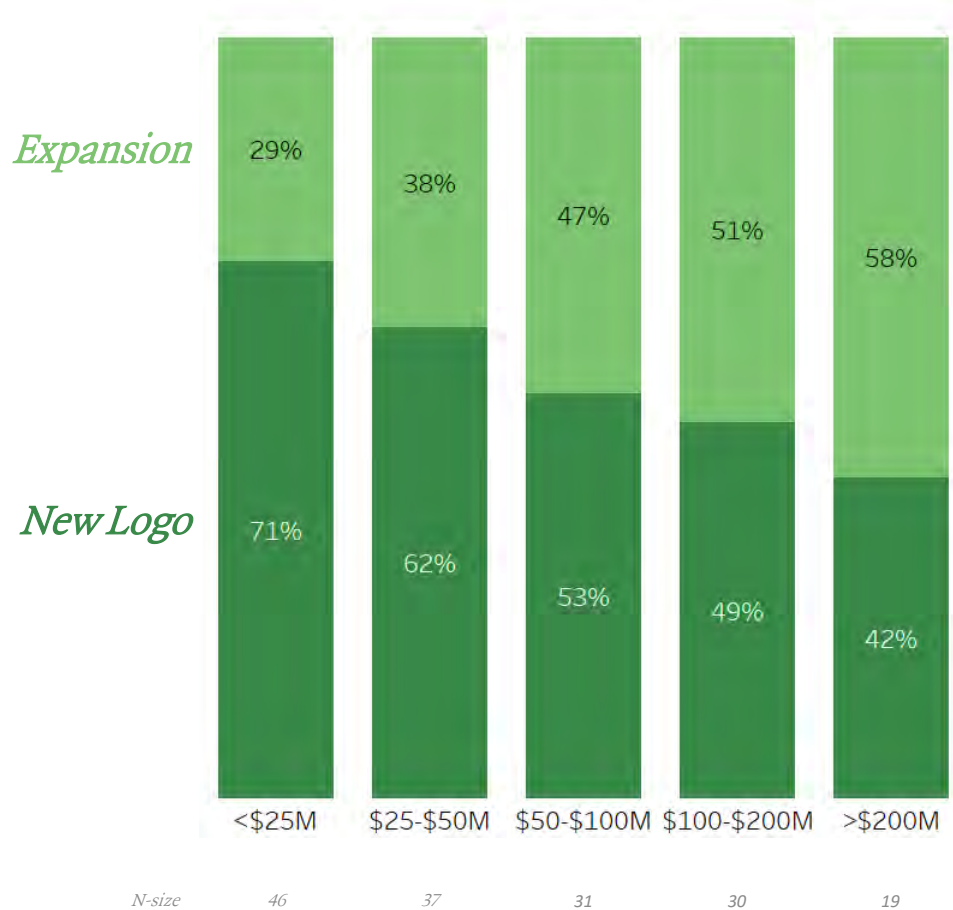
<sup>2</sup> Pricing model comparison includes all top quartile companies regardless of ARR range

## Topline Health | Drivers of ARR Growth by Scale

New logos are the primary driver of ARR growth until companies reach ~\$100M ARR, at which point expansion starts to contribute more than 50% of gross new ARR

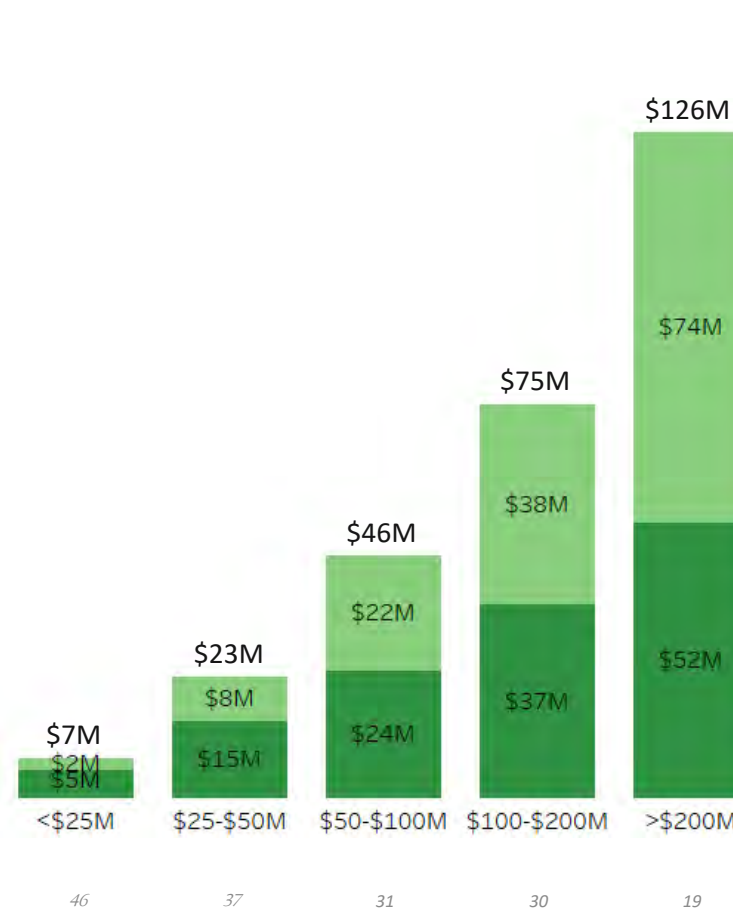
### Average Gross New ARR Distribution<sup>1</sup>

By ARR Range



### Average Gross New ARR (\$)<sup>1</sup>

By ARR Range



In our 2022 Growth & Efficiency analysis, expansion only became the primary driver of gross new ARR after companies reached \$200M ARR.

Companies are now prioritizing expansion earlier in the company lifecycle, with expansion reaching 50% of gross new ARR for companies in the \$100-200M ARR stage. This has likely been accelerated by the rise of product-led growth business.

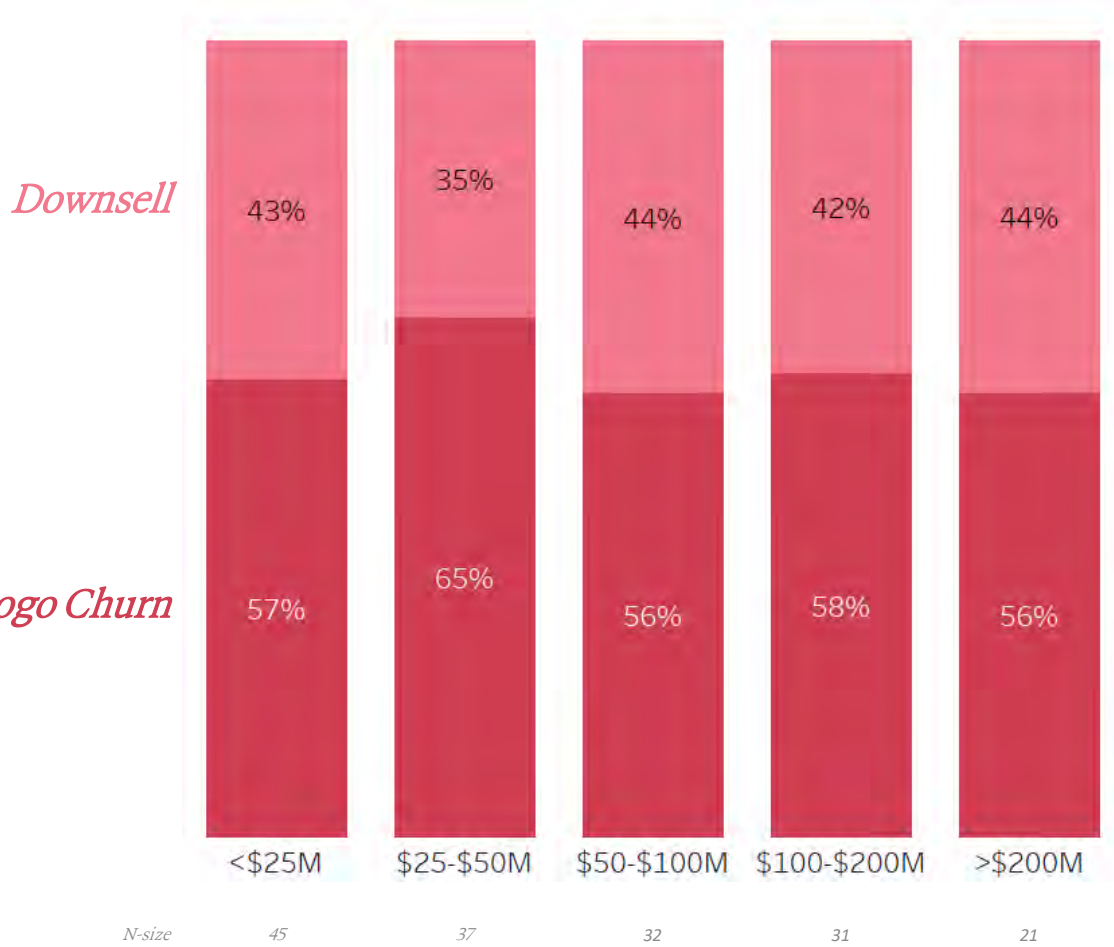
<sup>1</sup> Quarterly operating and financial data from the companies included

# Topline Health | Drivers of Churn by Scale

Logo churn usually makes up the majority of gross churn, with no significant variation in gross churn mix by stage

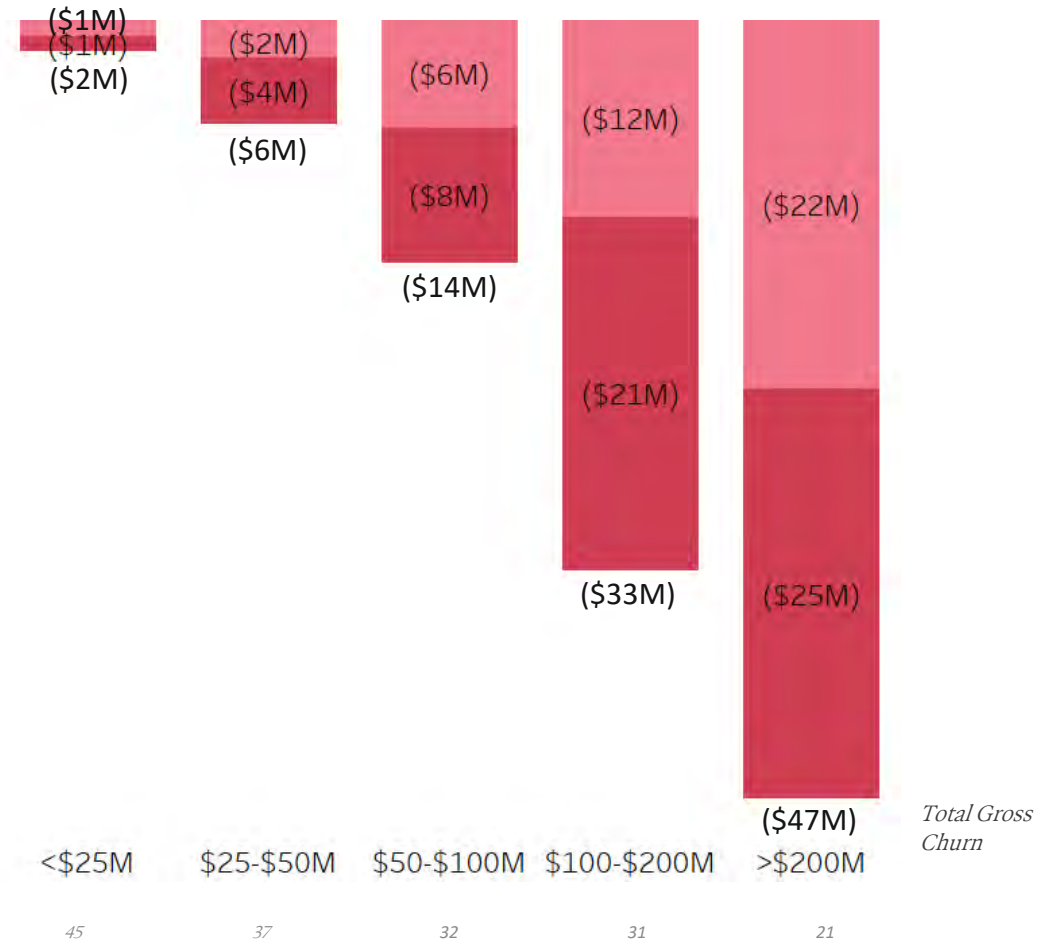
### Average Gross Churn Distribution<sup>1,2</sup>

By ARR Range



### Average Annualized Gross Churn<sup>1,2</sup>

By ARR Range



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

## Topline Health | Product vs Services Revenue

On average, 80-90% of revenue is driven by products vs. services, with product revenue comprising a greater portion of total revenue as companies scale. Services are generally not a strategic source of revenue, and are instead used as a means to drive higher retention and additional upsell

### Product vs Services Mix<sup>1</sup>

Average % of Revenue, By ARR Range



<sup>1</sup> Quarterly operating and financial data from the companies included

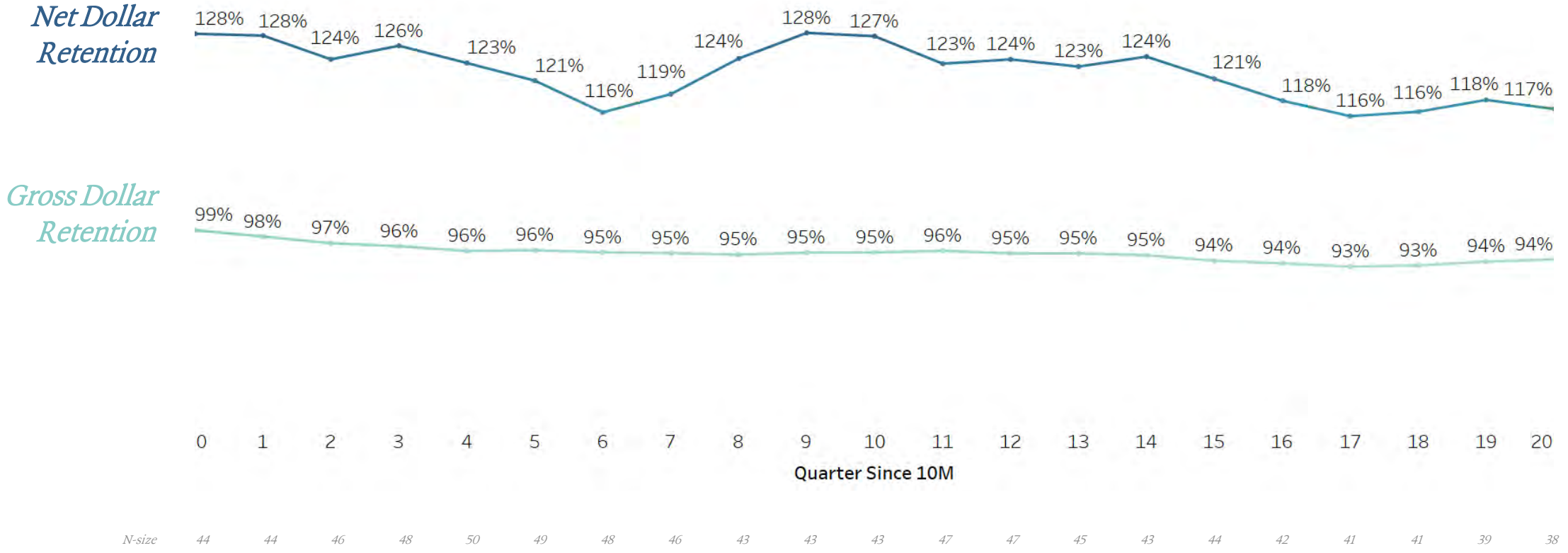


## Topline Health | ARR Retention

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

### Top Performance ARR Retention<sup>1</sup>

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



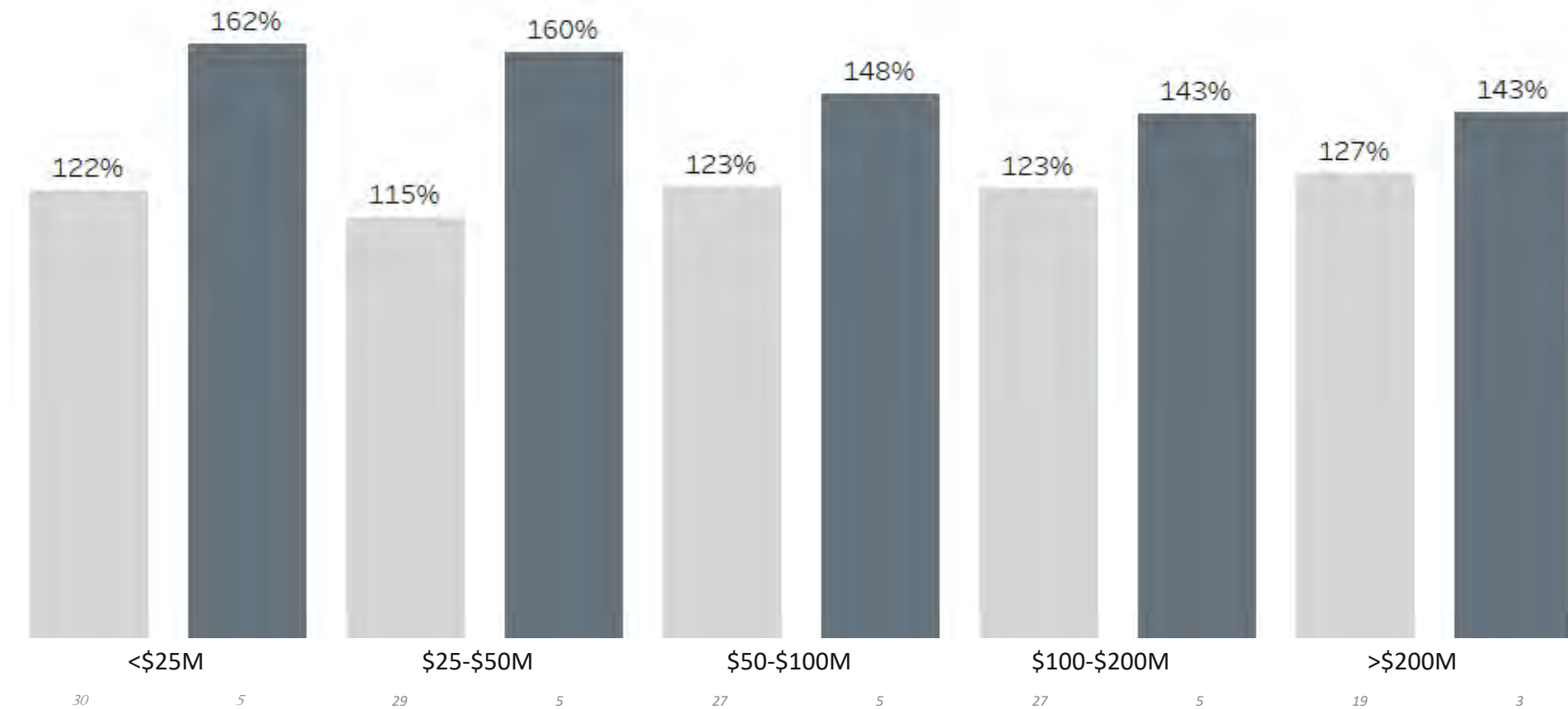
<sup>1</sup> Quarterly operating and financial data from the companies included

## Topline Health | ARR Retention by Pricing Model

SaaS companies with usage-based pricing models tend to experience greater volatility in net dollar retention as they scale, as usage-based pricing models are more susceptible to spikes in both expansion and downsell

*Subscription*  
*Usage-based*

### Top Performance Net Dollar Retention<sup>1</sup> *By Pricing Model and ARR Range*



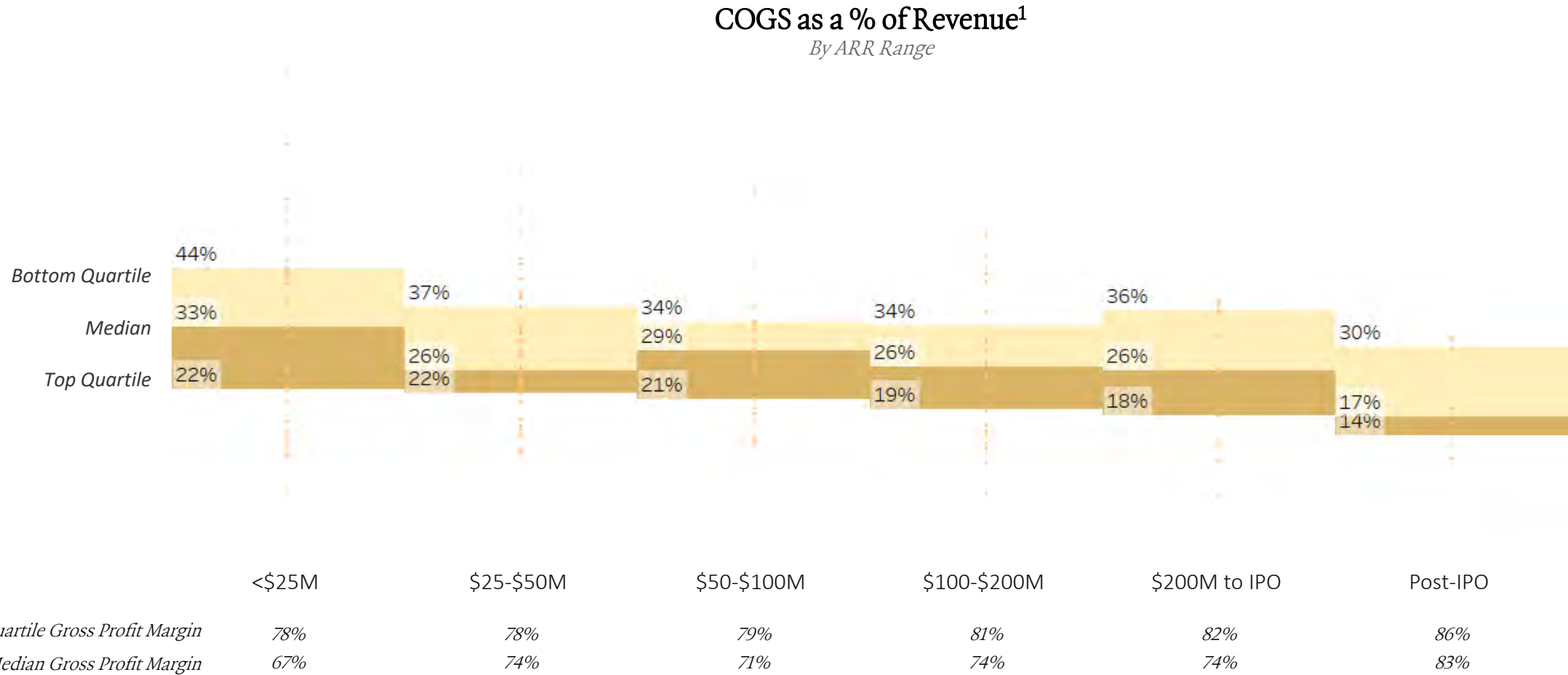
<sup>1</sup> Quarterly operating and financial data from the companies included

# Efficiency

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## Unit Economics | COGS as a % of Revenue by Scale

Software companies typically have ~70%+ gross margins and are able to reduce COGS on a per unit basis as they scale



<sup>1</sup> Quarterly operating and financial data from the companies included

## Unit Economics | COGS as a % of Revenue by Growth Motion

PLG companies tend to see significant 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

### COGS as a % of Revenue<sup>1</sup>

*By Growth Motion*



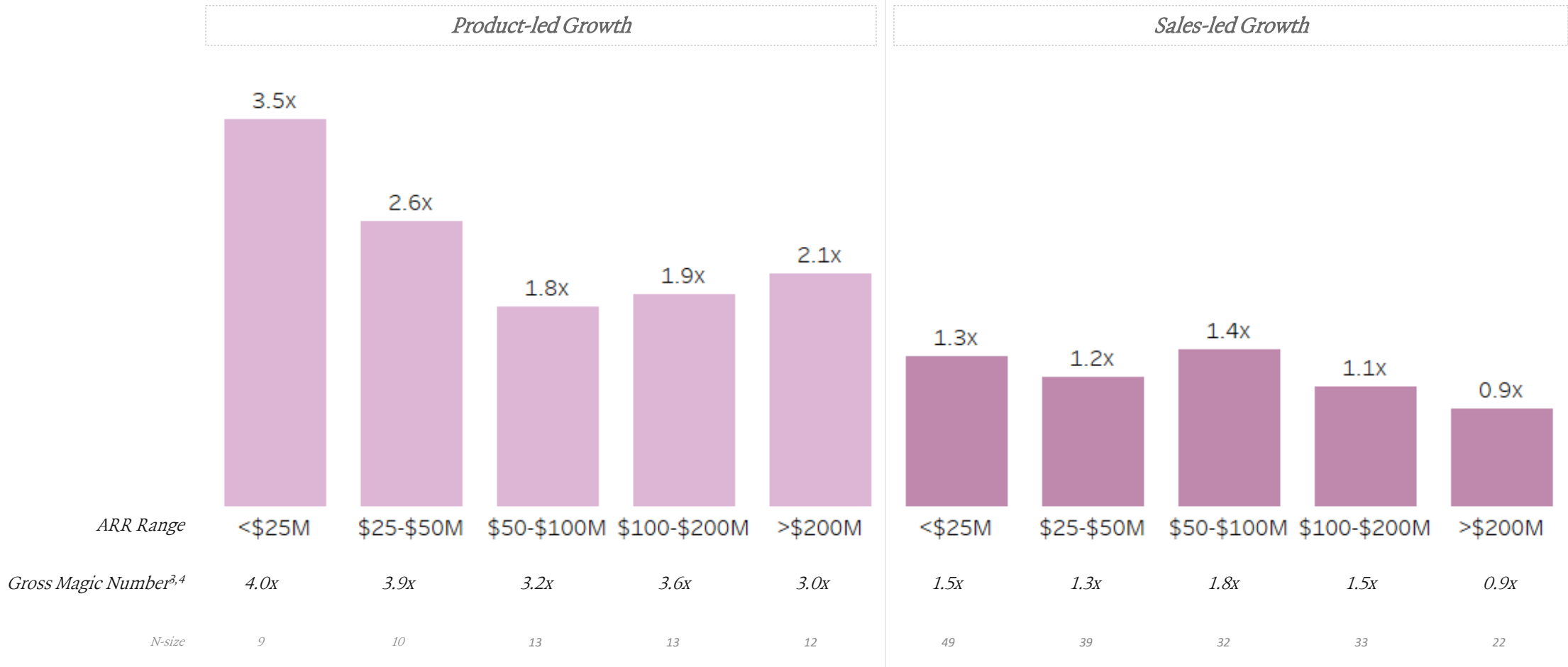
<sup>1</sup> Quarterly operating and financial data from the companies included

## Unit Economics | Magic Number

Usually requiring lower S&M spend, PLG companies also tend to have higher efficiency compared to sales-led growth companies with top quartile gross magic number usually closer to 2x

### Top Quartile Net Magic Number<sup>1,2,3</sup>

By ARR Range



<sup>1</sup> Quarterly operating and financial data from the companies included

<sup>2</sup> Net magic number = Current quarter net new ARR / prior quarter S&M OpEx

<sup>3</sup> Quarter of S&M OpEx utilized in magic number calculations should depend on a given company's sales cycle

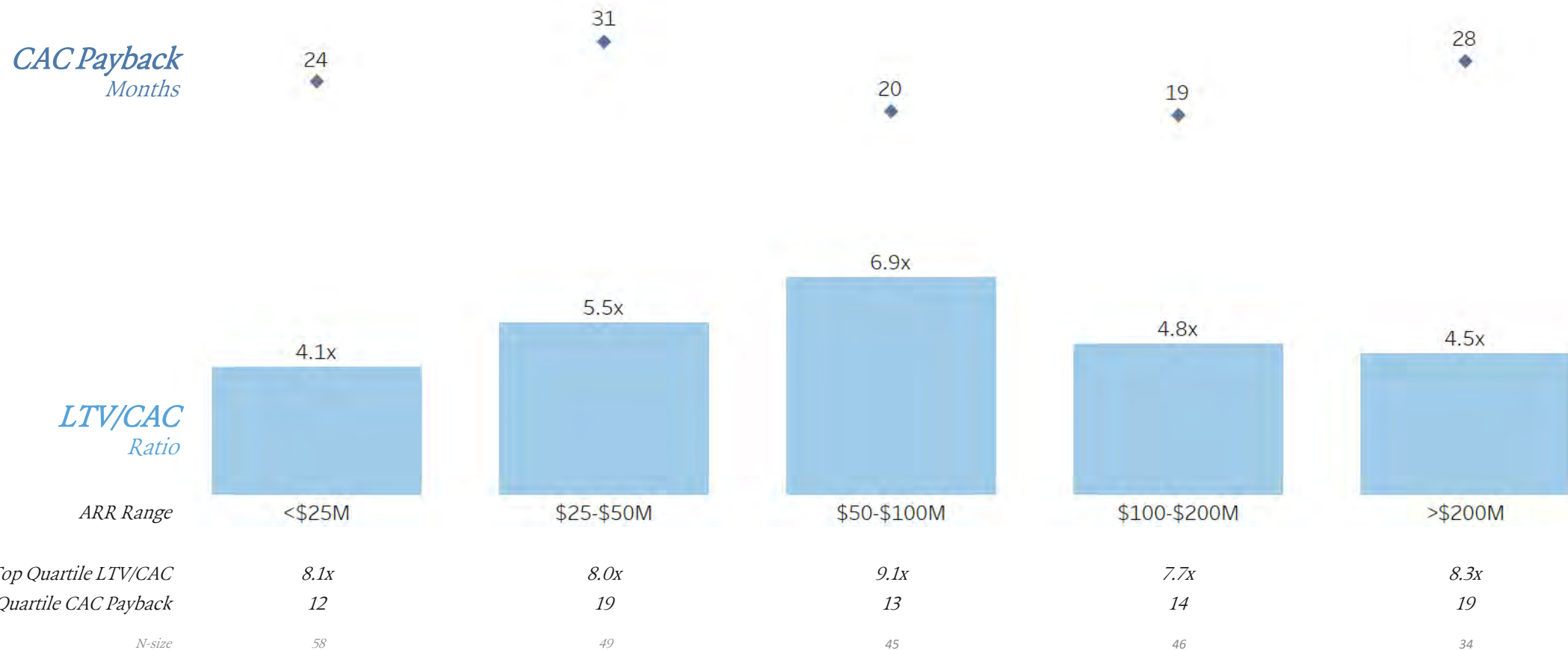
<sup>4</sup> Gross magic number = Current quarter gross new ARR / prior quarter S&M OpEx

## Unit Economics | LTV / CAC by Scale

SaaS companies typically see a LTV/CAC ratio of 4-7x depending on scale and a median CAC payback of 20-30 months

### Median LTV/CAC and CAC Payback<sup>1</sup>

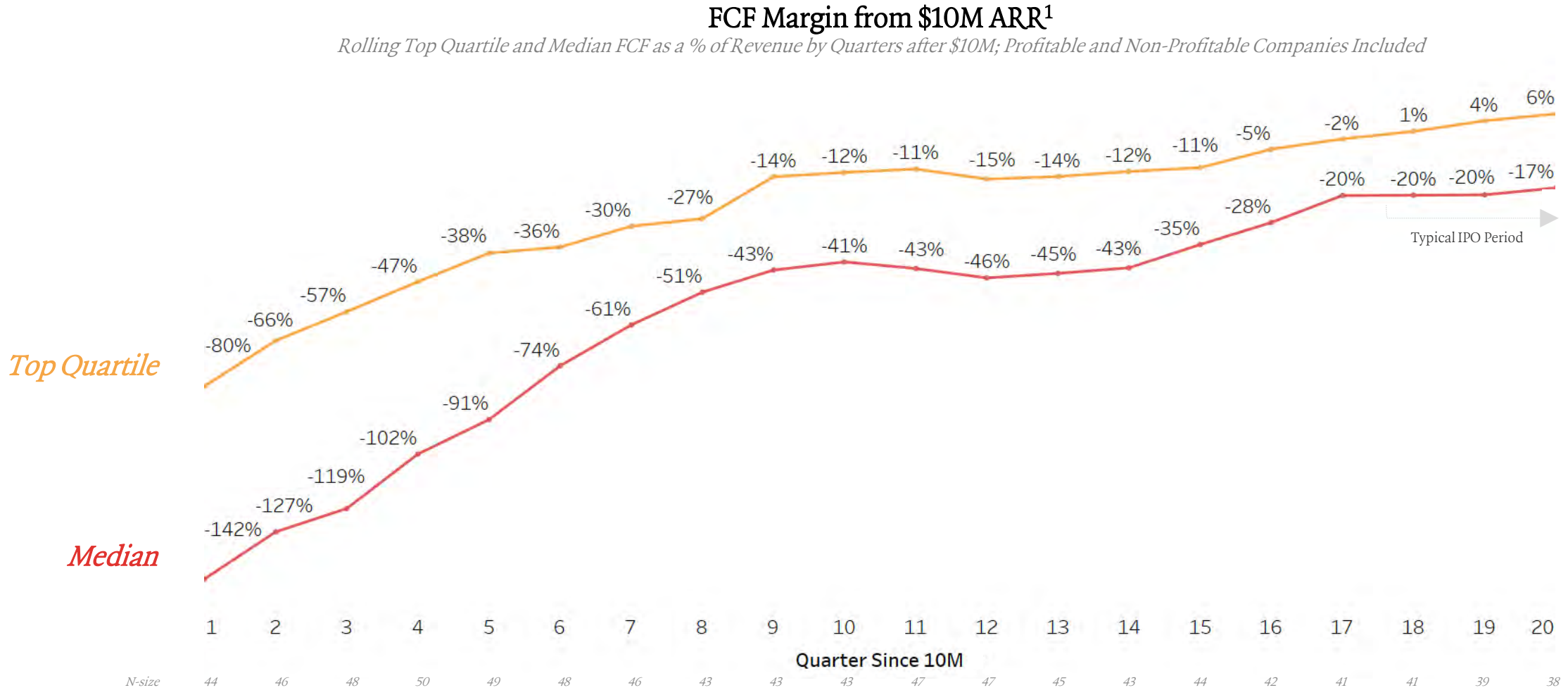
By ARR Range



<sup>1</sup> Quarterly operating and financial data from the companies included

# Efficiency | FCF Margins

## Top quartile SaaS companies achieve profitability 6-7 years after reaching \$10M ARR

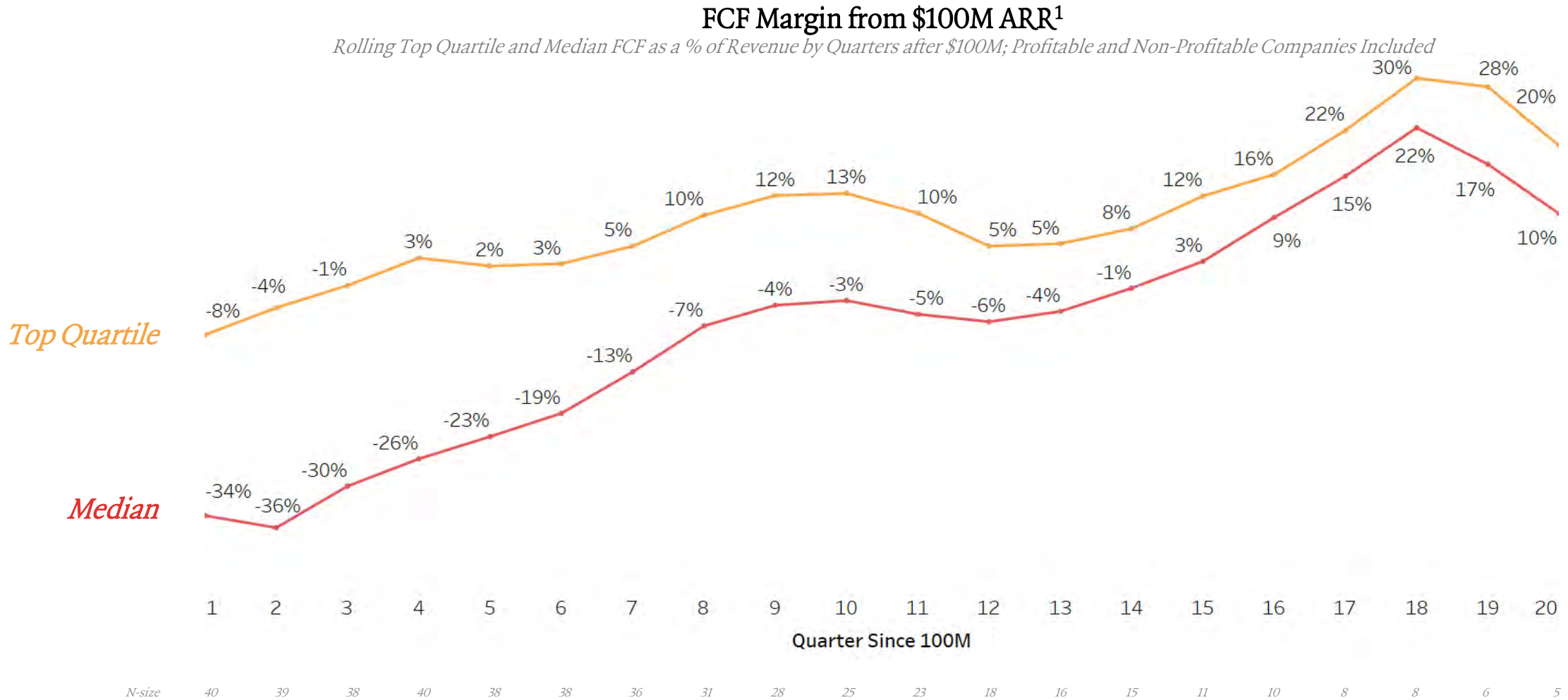


<sup>1</sup> Quarterly operating and financial data from the companies included



## IPO Readiness | FCF Margin

On average, SaaS companies approach profitability 3-4 years after reaching \$100M ARR, while top quartile companies reach profitability ~1.5 years sooner

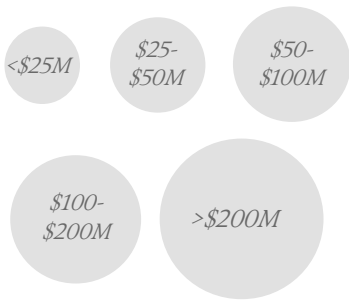


<sup>1</sup> Quarterly operating and financial data from the companies included

## Efficiency | Rule of 40

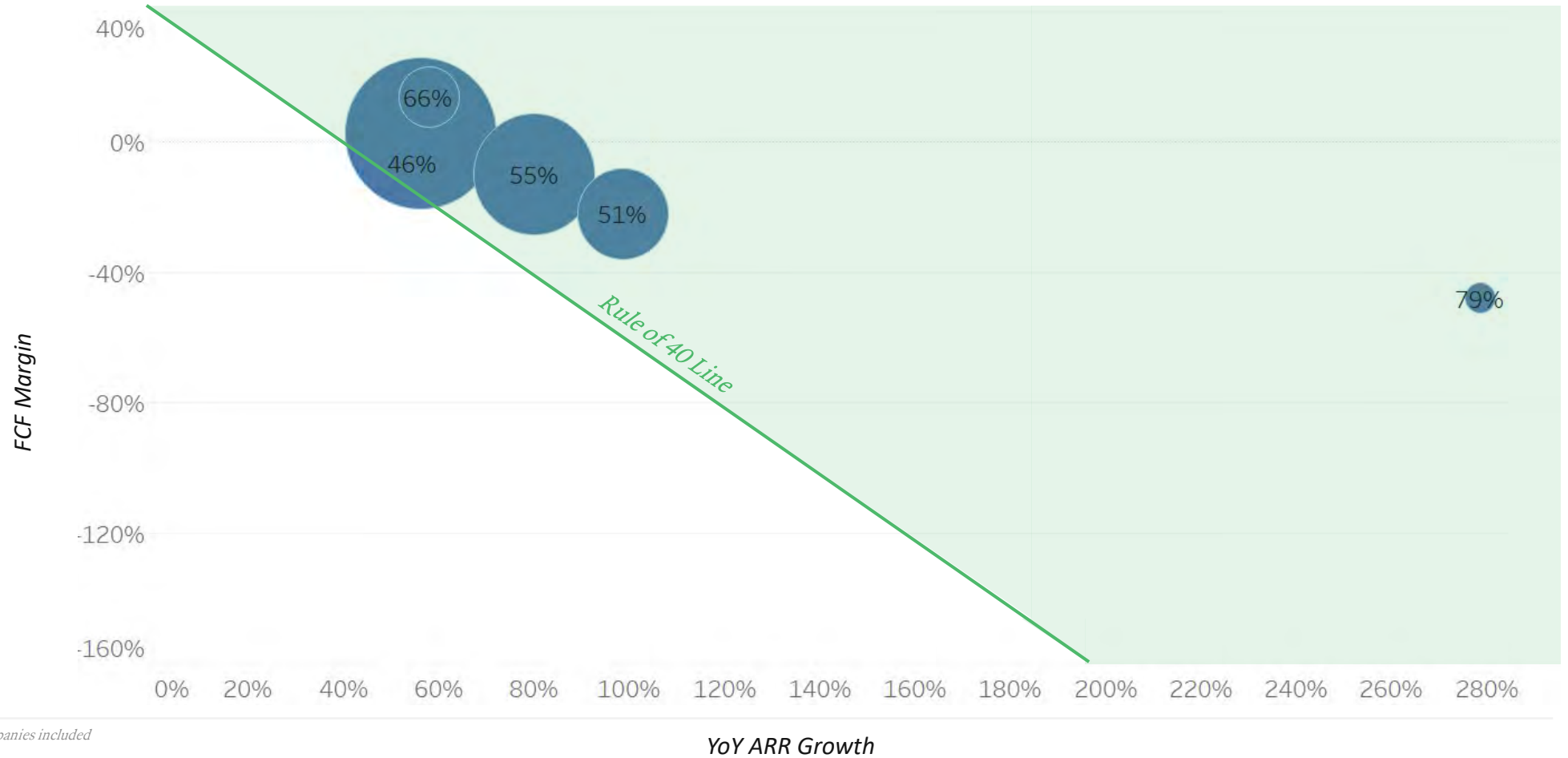
Rule of 40 tends to decline as SaaS companies scale and growth slows. However, top quartile companies are able to achieve Rule of 40 regardless of ARR scale

### ARR Scale



### Rule of 40: YoY ARR Growth + FCF Margin<sup>1</sup>

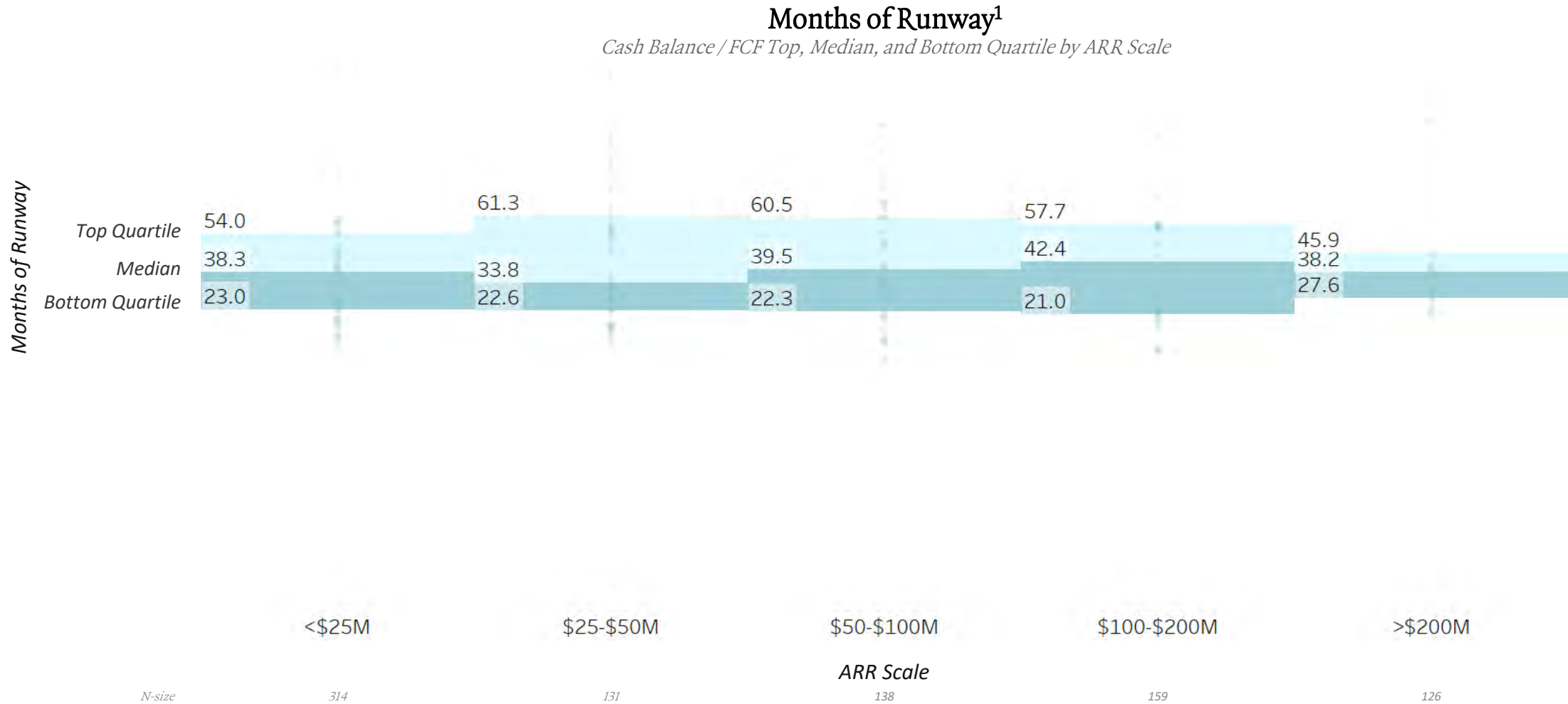
Top Quartile Rule of 40 by Performance Cohort and ARR Scale



<sup>1</sup> Quarterly operating and financial data from the companies included

## Efficiency | Runway

On average, SaaS companies maintain a median of ~35+ months of runway regardless of scale



<sup>1</sup> Quarterly operating and financial data from the companies included (2012-2023)

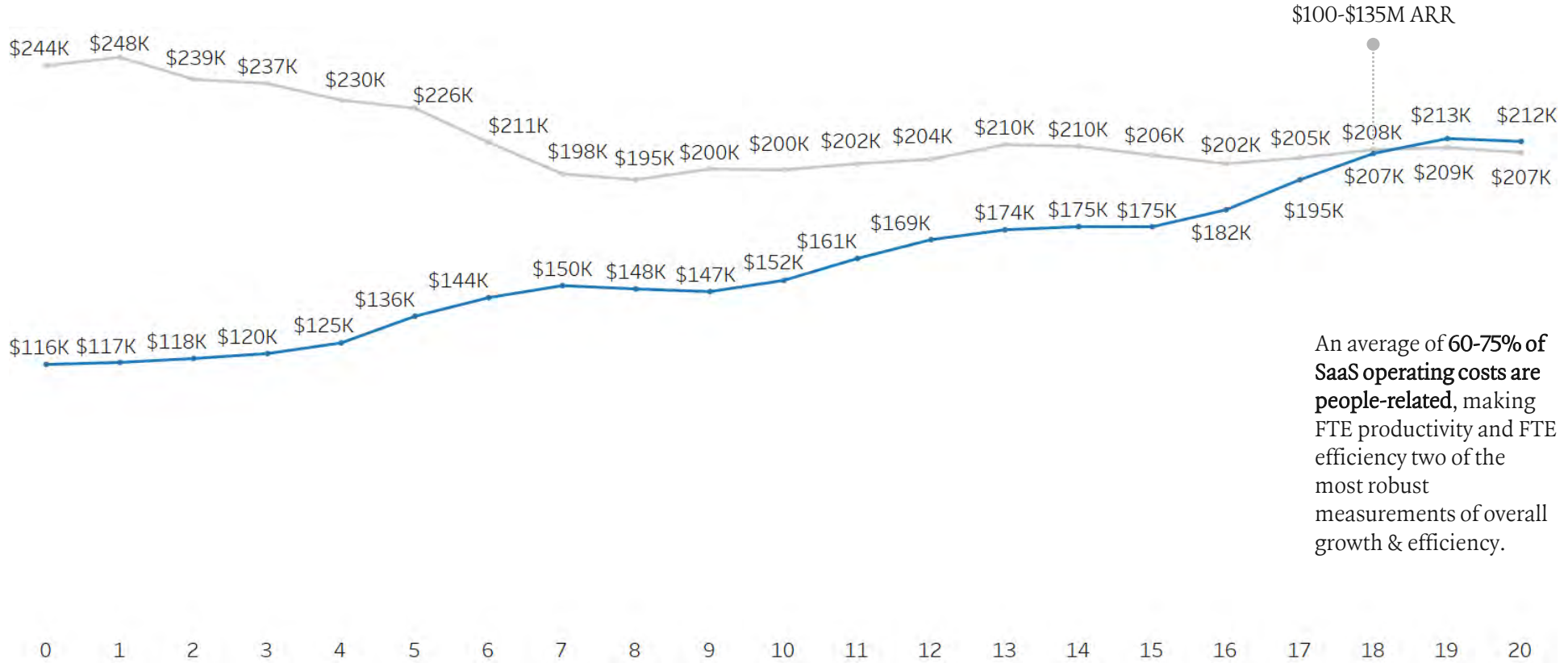
## Efficiency | Headcount Productivity vs Efficiency

Over time as companies scale, ARR per FTE should outpace OpEx per FTE as companies find increasing leverage and improve per employee productivity

### ARR per FTE and Annualized OpEx per FTE<sup>1</sup>

Rolling Median by Quarters after \$10M ARR Threshold

Annualized  
OpEx per FTE



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.

Quarter Since 10M

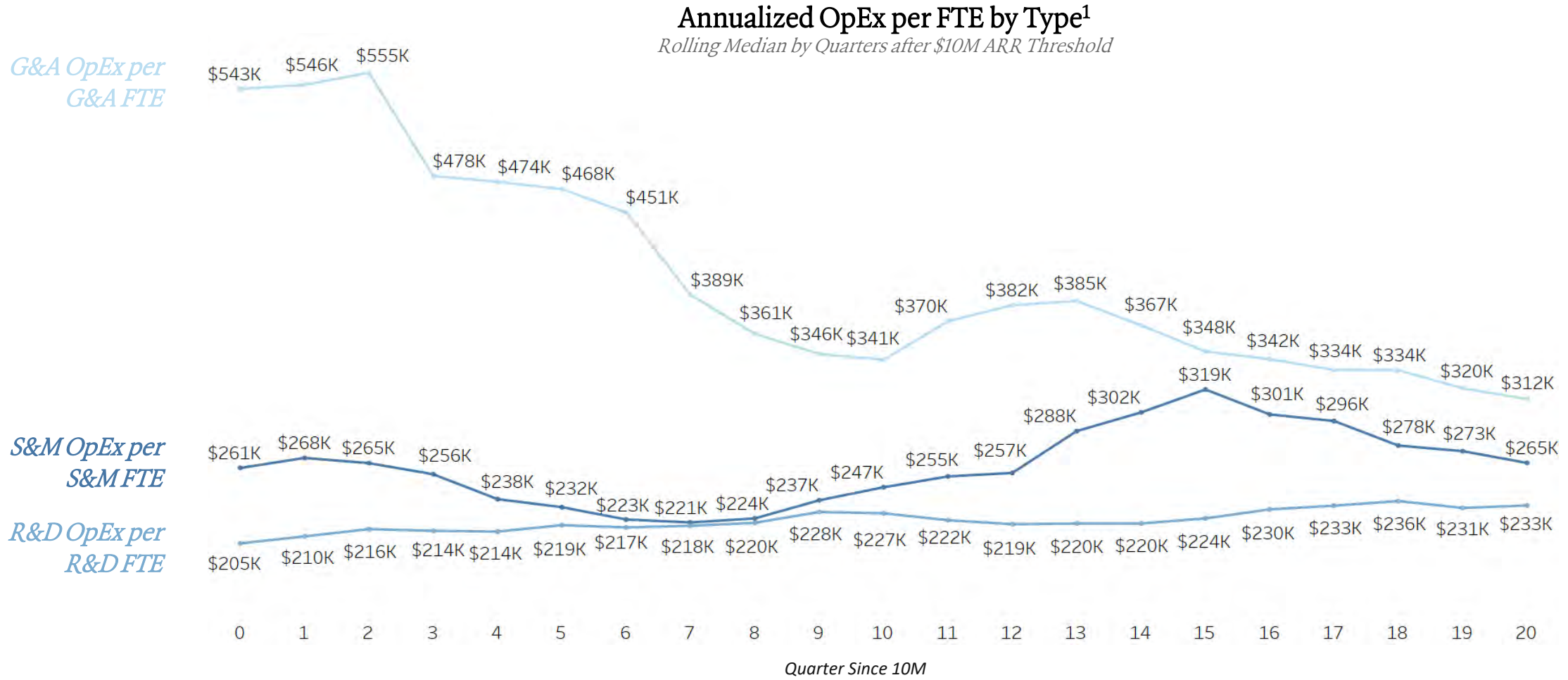
N-size

44 44 46 48 50 49 48 46 43 43 43 47 47 45 43 44 42 41 41 39 38

<sup>1</sup> Quarterly operating and financial data from the companies included

Efficiency | Spend per FTE

G&A typically comprises the highest spend per FTE; however, as companies scale, average spend per FTE tends to converge around \$200-300K



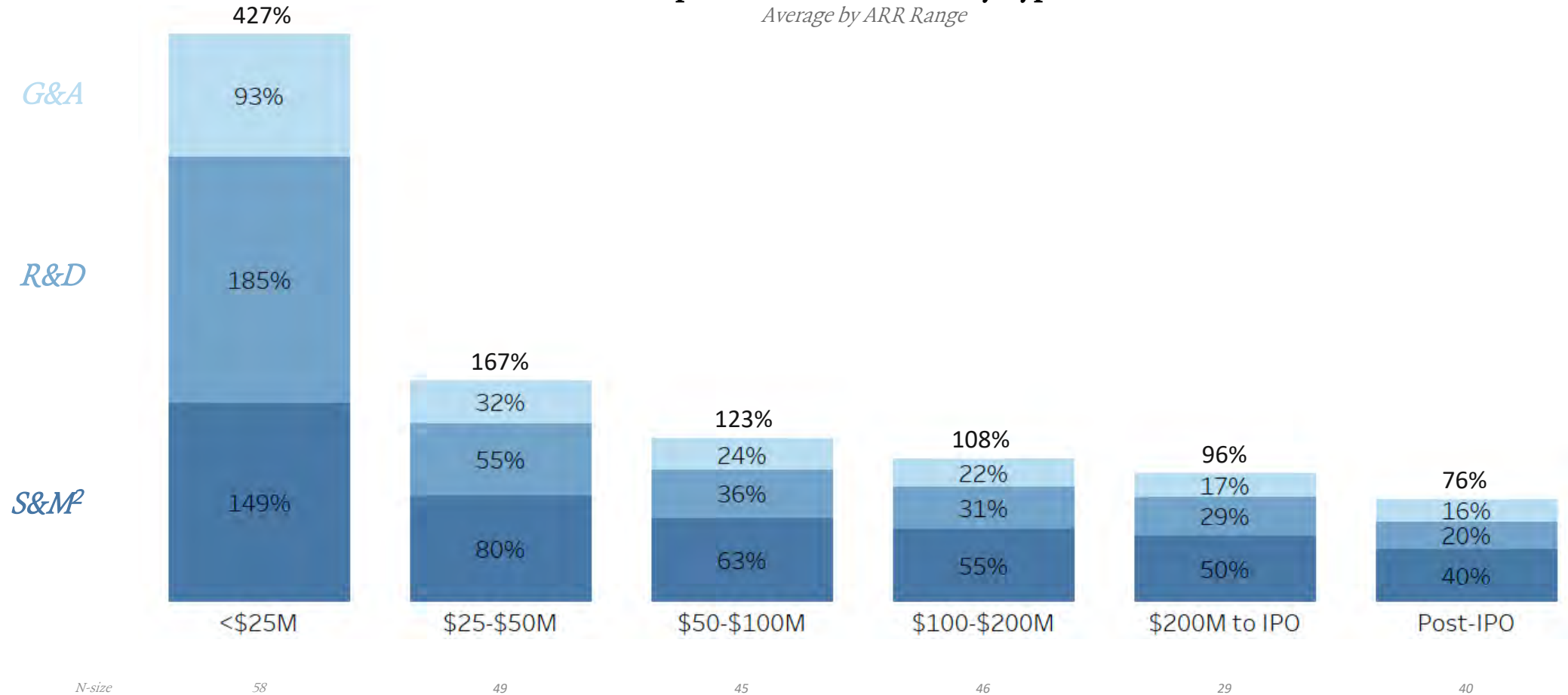
<sup>1</sup> Quarterly operating and financial data from the companies included

## Cost Allocation | OpEx as a % of Revenue by Scale

Over time as SaaS companies scale, revenue should start to outpace total operating spend once companies reach ~\$200M in ARR

### OpEx as a % of Revenue by Type<sup>1</sup>

Average by ARR Range



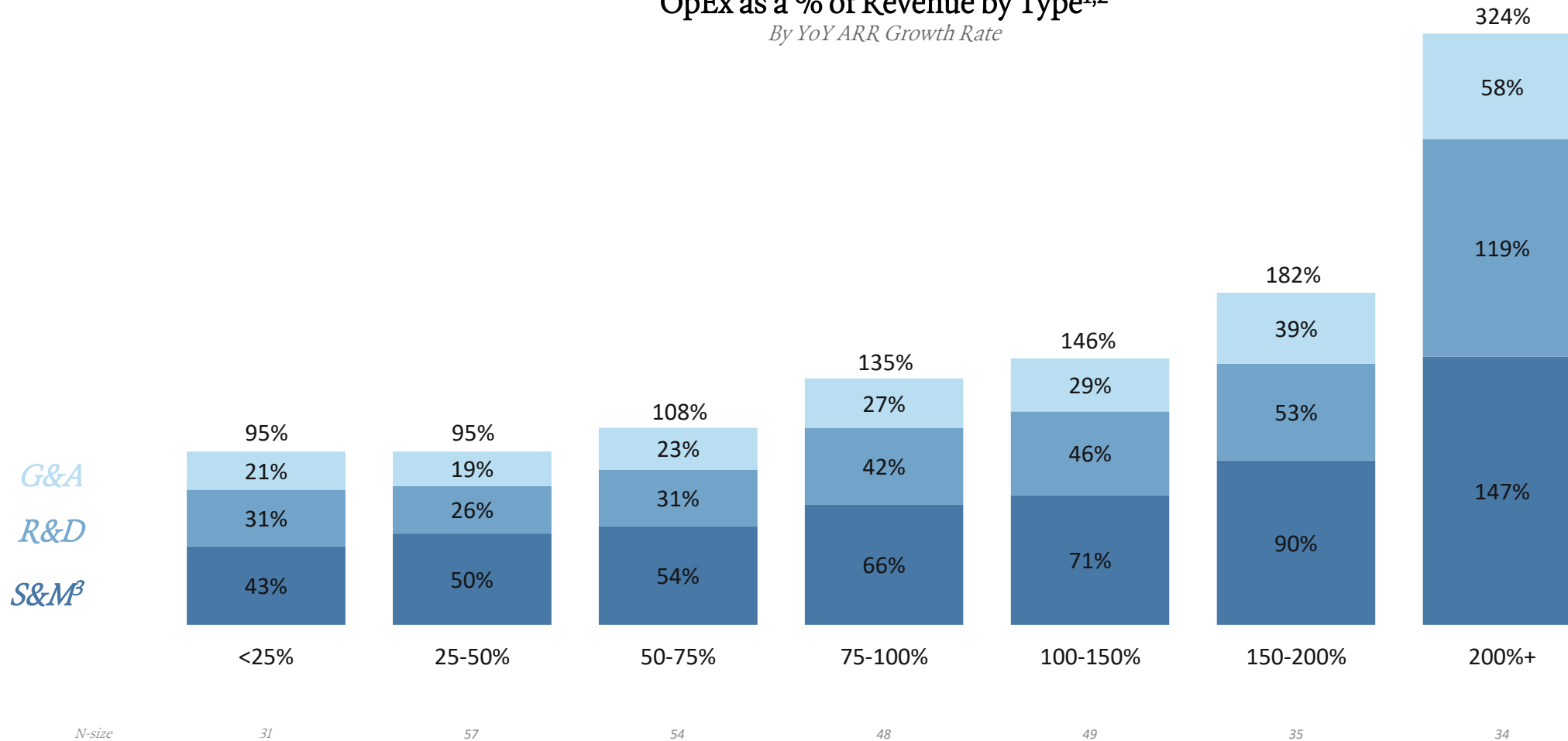
<sup>1</sup> Quarterly operating and financial data from the companies included

<sup>2</sup> Total Sales & Marketing OpEx includes Customer Success

## Cost Allocation | OpEx as a % of Revenue by Growth Rate

Total operating spend scales directionally with pace of growth. For hyper-growth companies in the 200%+ YoY range, total operating spend outpaces revenue by 3x

OpEx as a % of Revenue by Type<sup>1,2</sup>  
By YoY ARR Growth Rate



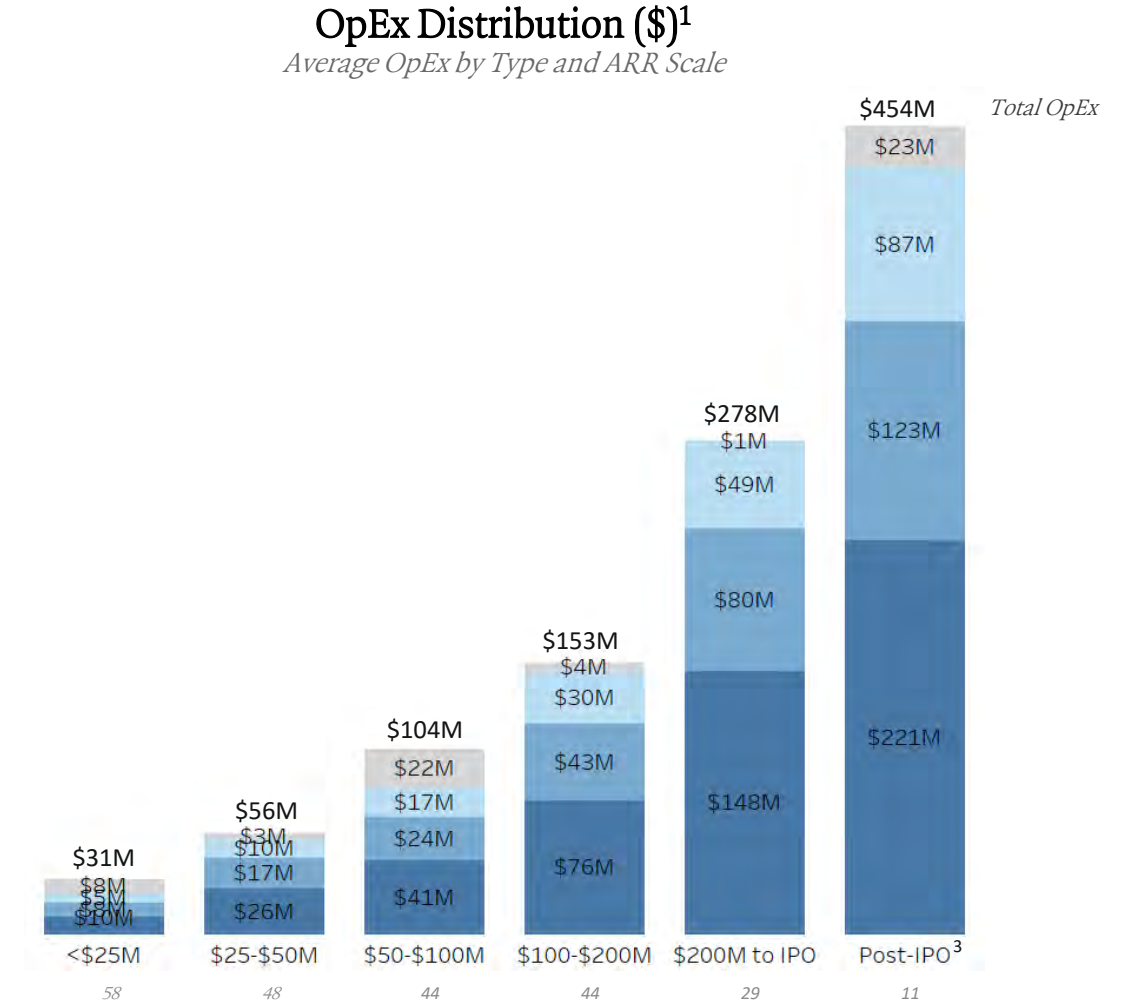
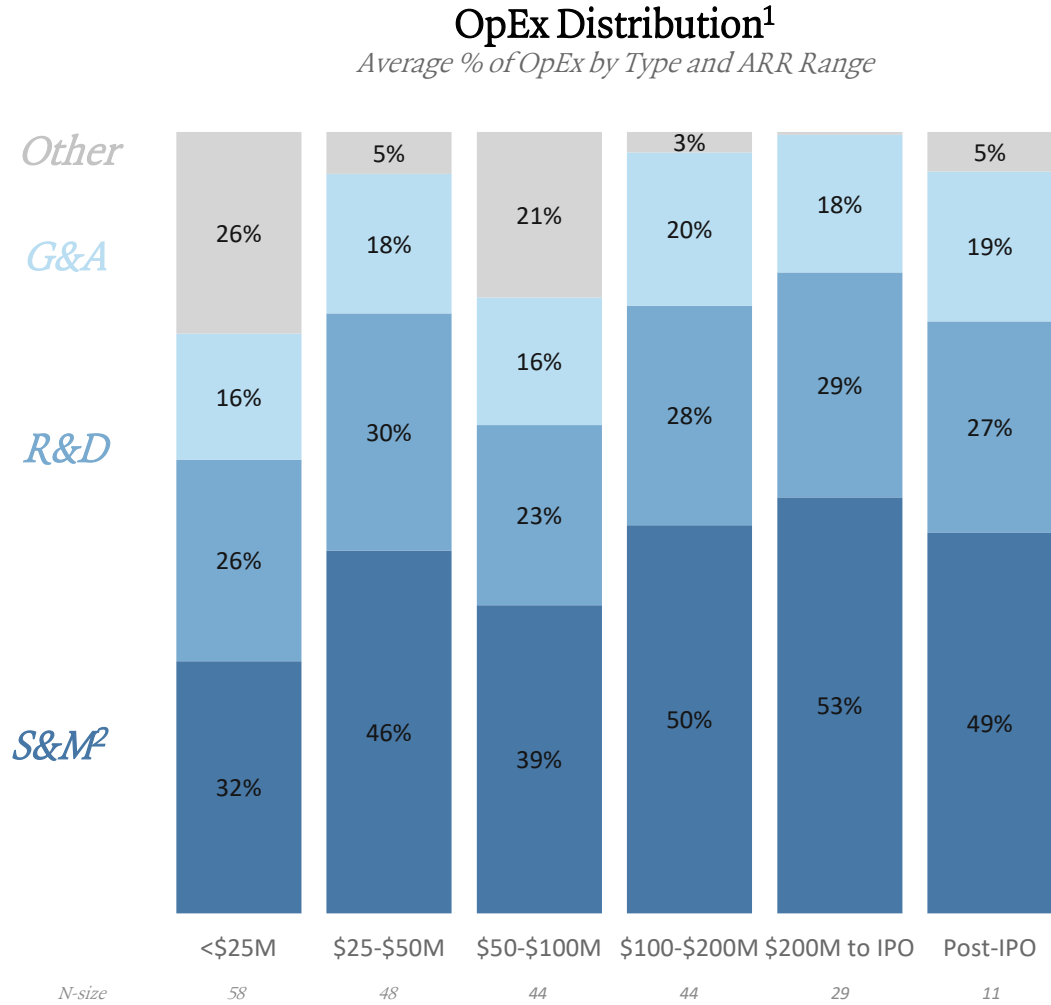
<sup>1</sup> Quarterly operating and financial data from the companies included

<sup>2</sup> OpEx distribution excludes 'Other' OpEx due to data availability

<sup>3</sup> Total Sales & Marketing OpEx includes Customer Success

## Cost Allocation | OpEx Distribution by Scale

As companies mature and invest in GTM to drive revenue growth, R&D starts to make up an increasingly smaller proportion of total operating spend



<sup>1</sup> Quarterly operating and financial data from the companies included

<sup>2</sup> Total Sales & Marketing OpEx includes Customer Success OpEx

<sup>3</sup> "Post-IPO" includes data within 2 fiscal years after IPO

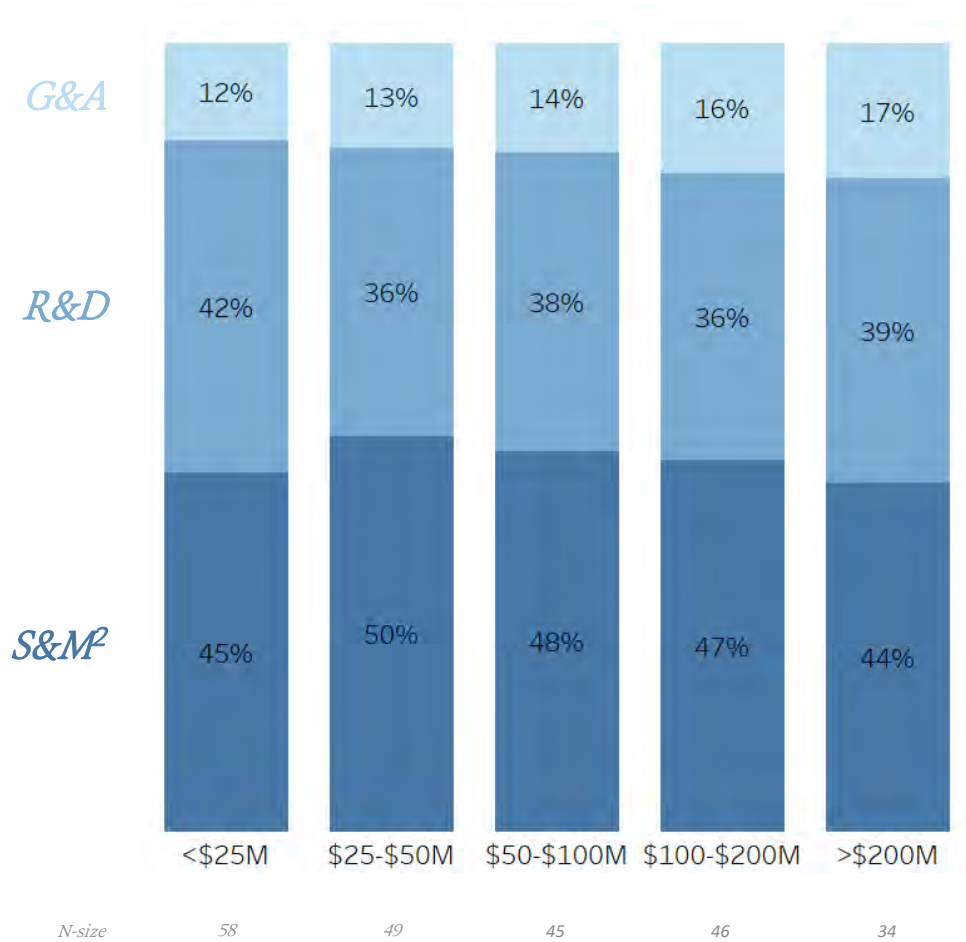


## Cost Allocation | Headcount Distribution

Similarly, R&D also comprises a smaller proportion of total headcount as companies invest in go-to-market excellence leading up to IPO

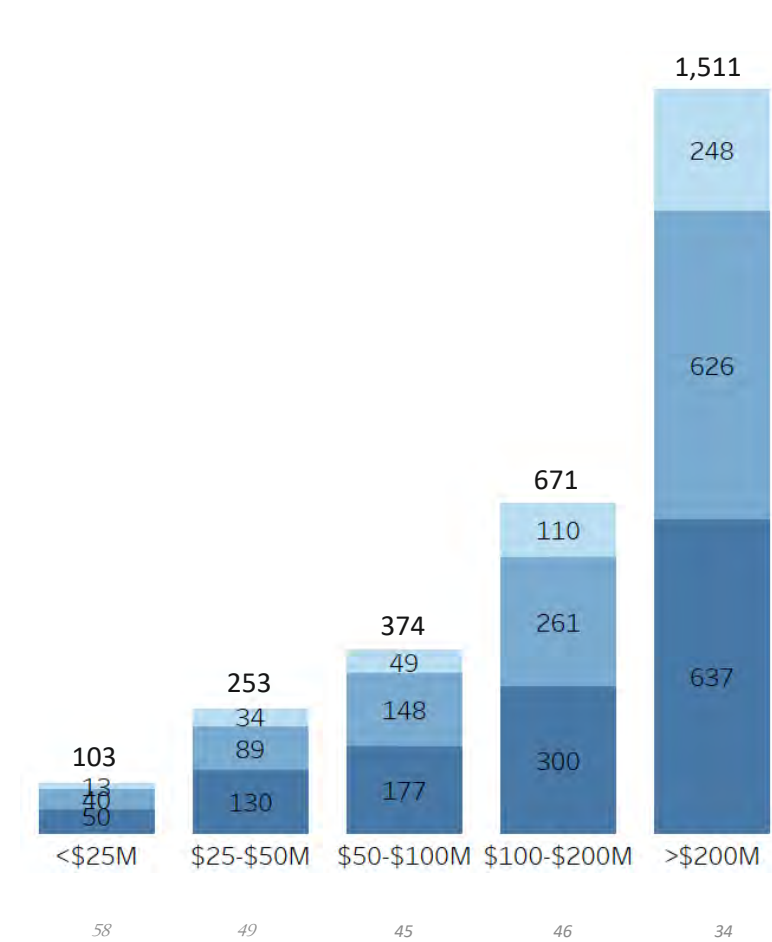
### FTE Distribution<sup>1</sup>

Average % of Headcount by Type and ARR Range



### FTE Distribution<sup>1</sup>

Average Headcount by Type and ARR Range



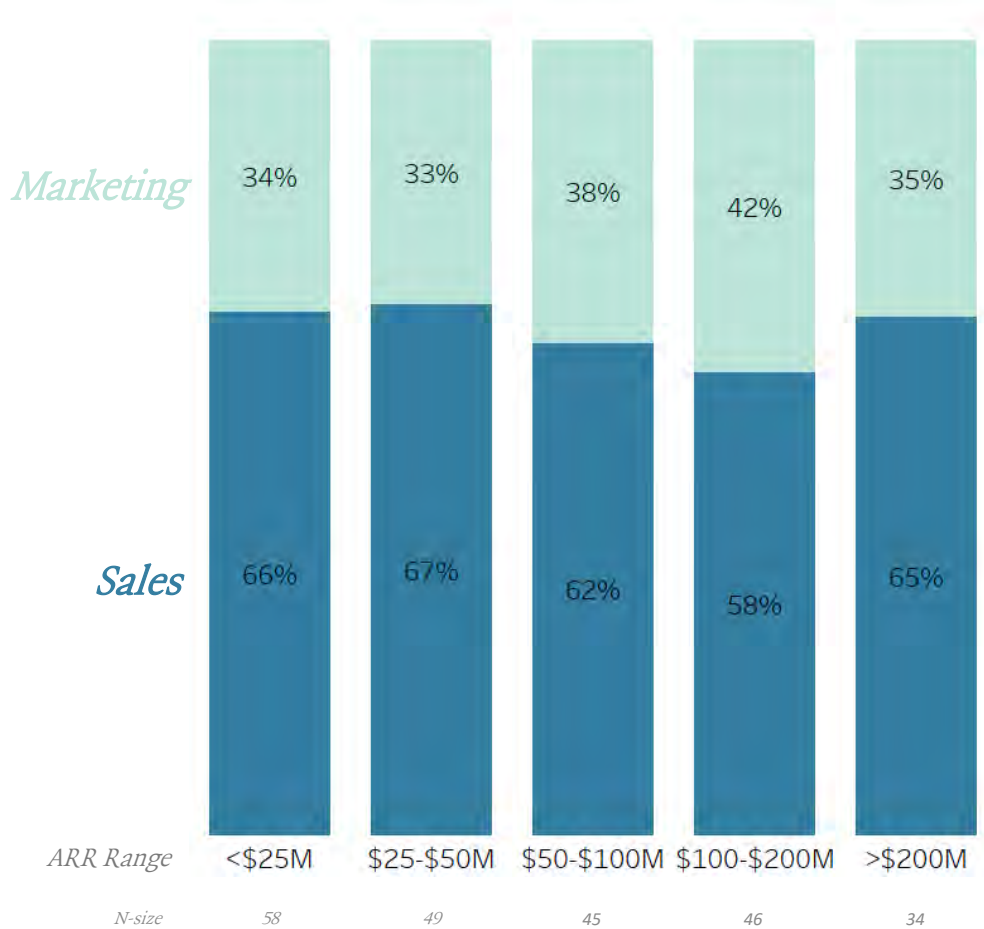
<sup>1</sup> Quarterly operating and financial data from the companies included  
<sup>2</sup> Total Sales & Marketing OpEx includes Customer Success OpEx

## Cost Allocation | GTM Spend

Sales spend usually comprises 65-75% of total GTM spend and around 70-80% of total GTM headcount

### S&M OpEx Distribution<sup>1</sup>

Average % of S&M OpEx by Type and ARR Range



Customer Success is typically included in the S&M org. However, it was excluded here due to data availability. On average, ~20% of total S&M OpEx is Customer Success.

### S&M FTE Distribution<sup>1</sup>

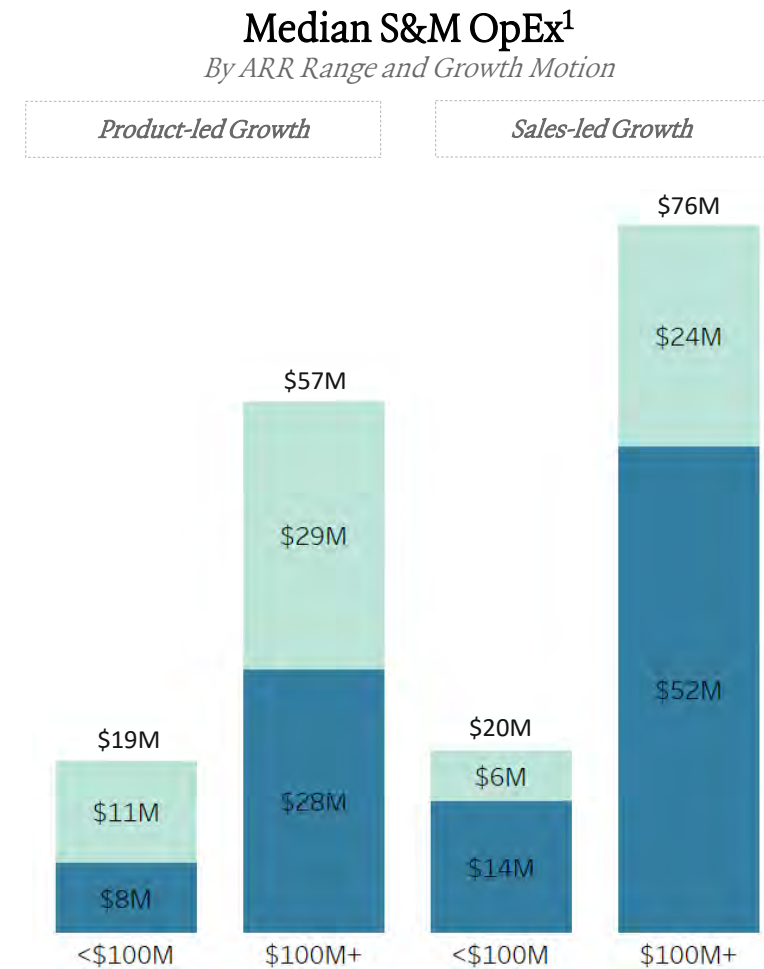
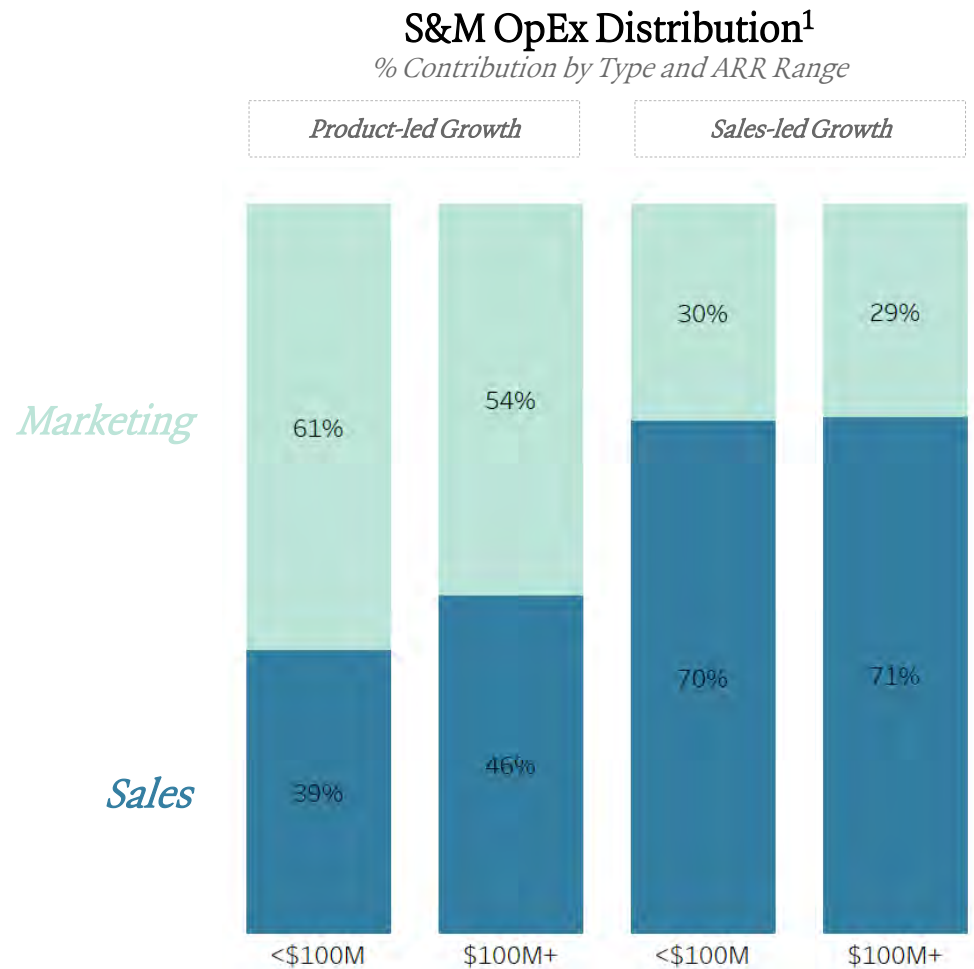
Average % of S&M Headcount by Type and ARR Range



<sup>1</sup> Quarterly operating and financial data from the companies included

## Cost Allocation | GTM Headcount by Growth Motion

On average, PLG companies allocate more dollars to marketing over sales compared to sales-led growth companies



<sup>1</sup> Quarterly operating and financial data from the companies included

# The Resiliency Rubric



# THE ICONIQ GROWTH Resiliency Rubric

*Legend*  
Median Top Quartile

## What is the Resiliency Rubric?

Read about why we believe it's so important for SaaS companies to start tracking these 5 metrics in the current market.

In addition to the Enterprise Five, we recommend SaaS companies keep in mind these additional metrics that will drive resilience in times of volatility

### Median & Top Quartile Performance by ARR Range<sup>1</sup>

	<\$25M	\$25-\$50M	\$50-\$100M	\$100-\$200M	\$200M to IPO	Post-IPO <sup>5</sup>
<b>1</b> Quick Ratio <i>Gross New ARR / Gross Churned ARR</i>	8x 19x	5x 16x	6x 11x	5x 10x	4x 6x	Low N-Size
<b>2</b> Topline Attainment <i>Actuals as % of annual plan, net new cumulative bookings</i>	Companies should aim to achieve 100% quarterly net new attainment of their topline plan, regardless of scale. Top performers have managed to stay in the 80-100% range regardless of scale in the current environment.					
<b>3</b> Burn Multiple <i>FCF / Net New ARR<sup>1</sup></i>	2.0x 1.1x	1.6x 0.7x	0.9x 0.5x	1.1x 0.6x	0.9x 0.4x	0.3x 0.2x
<b>4</b> CAC Payback <i>CAC / (New MRR x Gross Margin)<sup>2</sup></i>	22 10	28 15	20 13	19 14	34 19	12 8
<b>5</b> Productivity Ratio <i>ARR per FTE / OpEx per FTE<sup>3</sup></i>	0.5x 0.7x	0.7x 0.8x	0.9x 1.1x	1.0x 1.3x	1.2x 1.4x	1.2x 1.5x

Given the current environment, we expect that **median benchmarks shown here will be more realistic for companies to target in 2023**, but have included top quartile as reference for “best in class” performance regardless of time period

<sup>1</sup> Quarterly operating and financial data from the companies included

<sup>2</sup> Non-profitable companies only

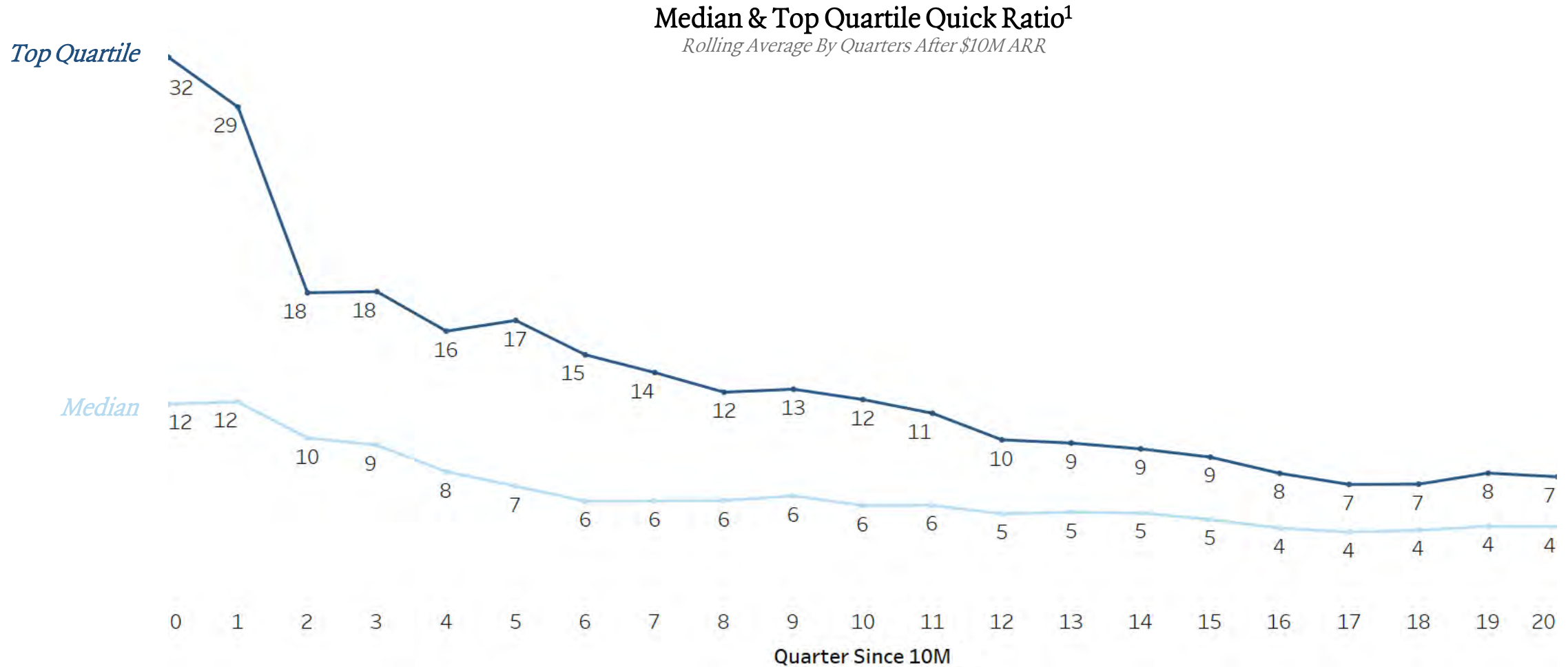
<sup>3</sup> CAC Payback shown in months. Overall gross margin reflects customer support

<sup>4</sup> The productivity ratio = ARR / OpEx. We believe it is topical to present the ratio in this format as companies continue to look at metrics on a per FTE basis post-RIF

<sup>5</sup> Within 2 fiscal years after IPO

## The Resiliency Rubric | Quick Ratio

Quick ratio measures bookings growth vs. contraction; as companies scale, quick ratio naturally decreases. However, top quartile companies are able to maintain a quick ratio above 7x even after reaching \$100M ARR



<sup>1</sup> Quarterly operating and financial data from the companies included

# The Resiliency Rubric | Burn Multiple

## Top quartile companies maintain a burn multiple under 1x after reaching \$10M ARR

### Burn Multiple<sup>1</sup>

Rolling Top Quartile and Median by Quarters after \$10M; Only Non-Profitable Companies

Median



<sup>1</sup> Quarterly operating and financial data from the companies included

## The Resiliency Rubric | CAC Payback

Top-quartile companies maintain a CAC payback of under 20 months after reaching \$10M ARR

### Top Quartile CAC Payback<sup>1</sup>

*Rolling Top Quartile and Median by Quarters After \$10M ARR, Excluding PLG Companies*



<sup>1</sup> Quarterly operating and financial data from the companies included

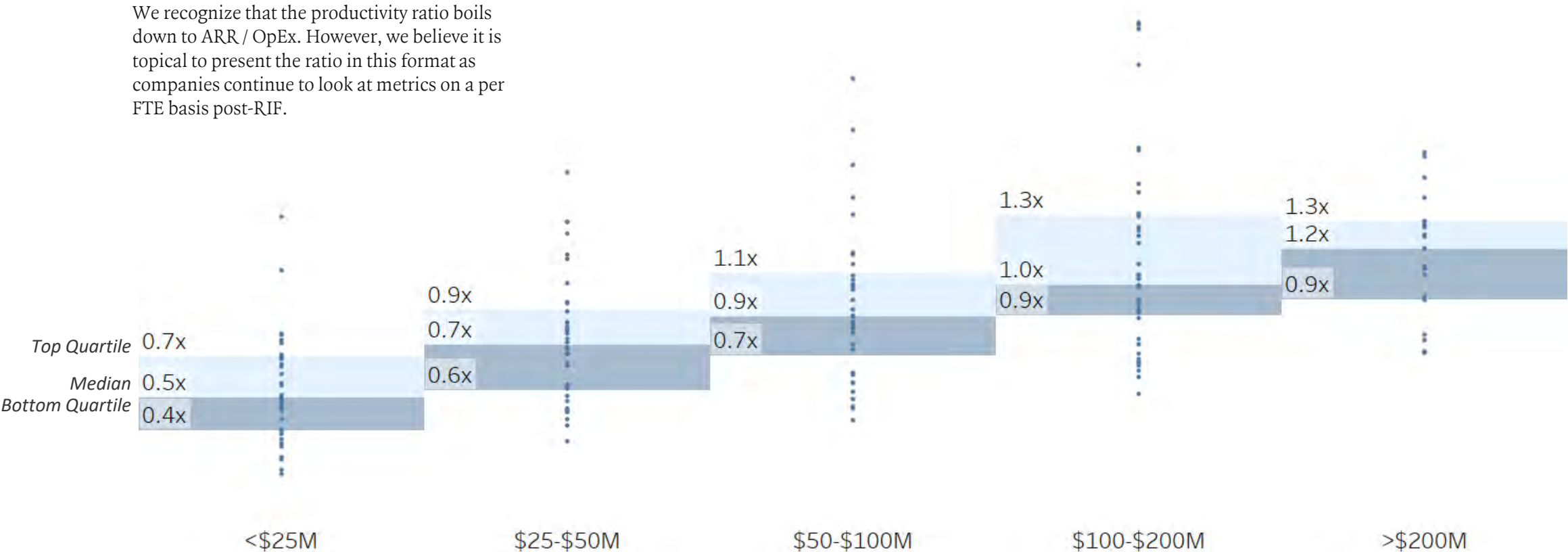


## The Resiliency Rubric | Productivity Ratio

The productivity ratio measures how much ARR is generated per employee vs how much spend is being invested per employee. As companies scale, they should aim to achieve a productivity ratio greater than 1.0x

Top Quartile ARR per FTE / OpEx per FTE<sup>1</sup>  
By ARR Range

We recognize that the productivity ratio boils down to ARR / OpEx. However, we believe it is topical to present the ratio in this format as companies continue to look at metrics on a per FTE basis post-RIF.



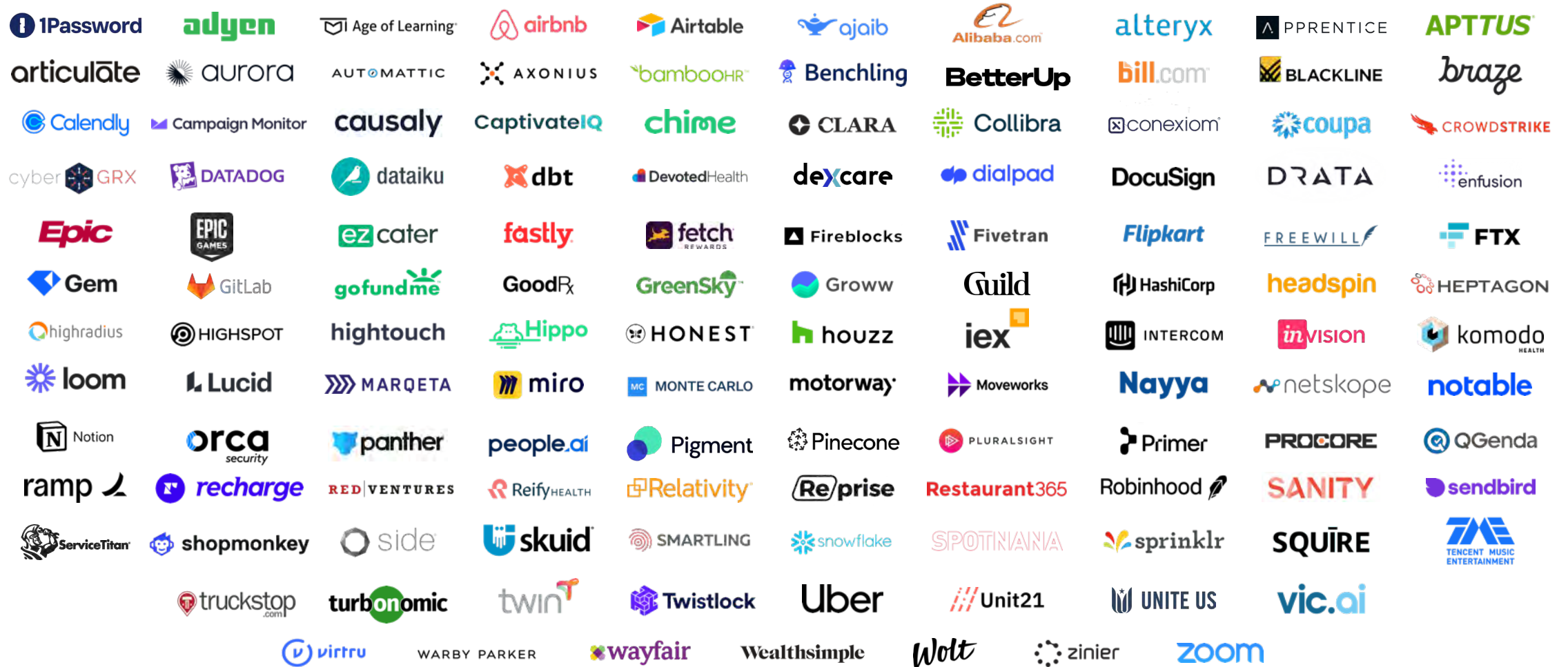
<sup>1</sup> Quarterly operating and financial data from the companies included

# Appendix

## *Supplemental Materials*



# 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.

# Technology matters. Strategy matters. People matter most.



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