

ICONIQ | Growth

Topline Growth & Operational Efficiency

*The data behind scaling
a B2B SaaS business*

September 2022



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Topline Growth & Operational Efficiency

About the Research

ICONIQ Growth has been proud to partner with more than 90 leading B2B software companies, 43 of which have been named the world's best cloud companies in the Forbes Cloud 100.¹

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

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

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

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

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

CONTENTS

1 Introduction

The Companies Included
Firmographics
Methodology

2 Executive Summary

The ICONIQ Growth Enterprise Five
What to Expect in 2022 & Beyond
Metrics to Watch
Learnings from Resilient Companies
Key Insights

3 Topline Growth & Operational Efficiency

A detailed look at the data:
Topline Health
Growth Efficiency
Spend Profile

4 Appendix
Supplemental Materials
About ICONIQ Growth

1 Introduction

The Companies Included

Firmographics

Methodology

Data Sources

Analysis

Resilience Framework



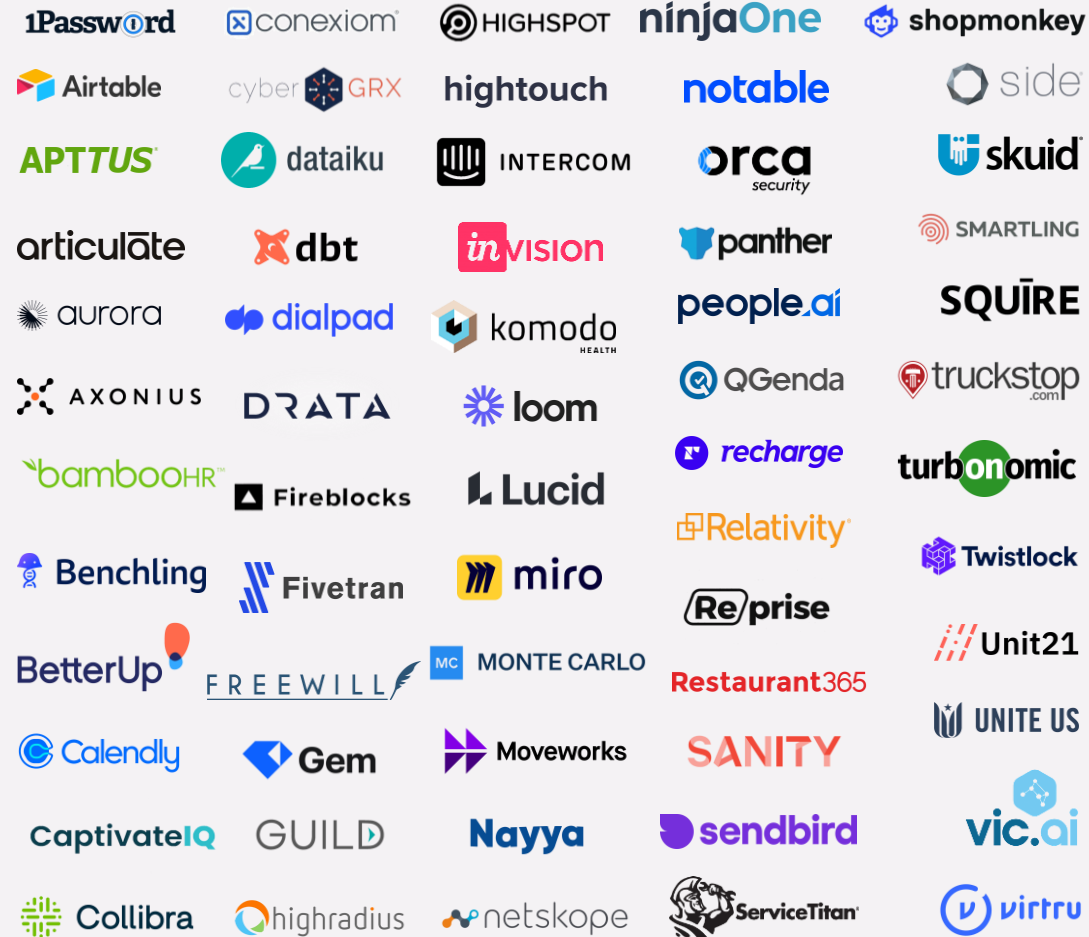
THE Companies Included

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

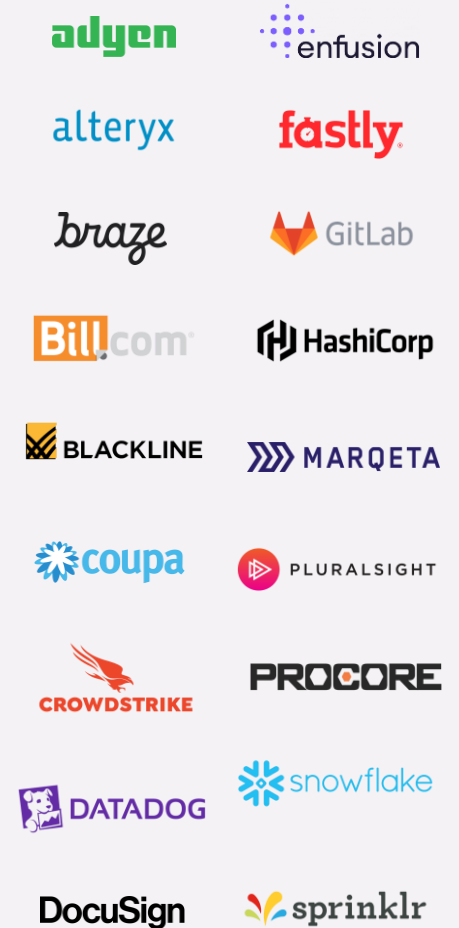
All ICONIQ Growth portfolio companies were included where data was available, and select public companies were included based on our IPO performance criteria.¹

ICONIQ Growth Portfolio Companies³

Private



Public or Acquired²



Select Public Companies¹



¹ See our IPO performance criteria in The Methodology section

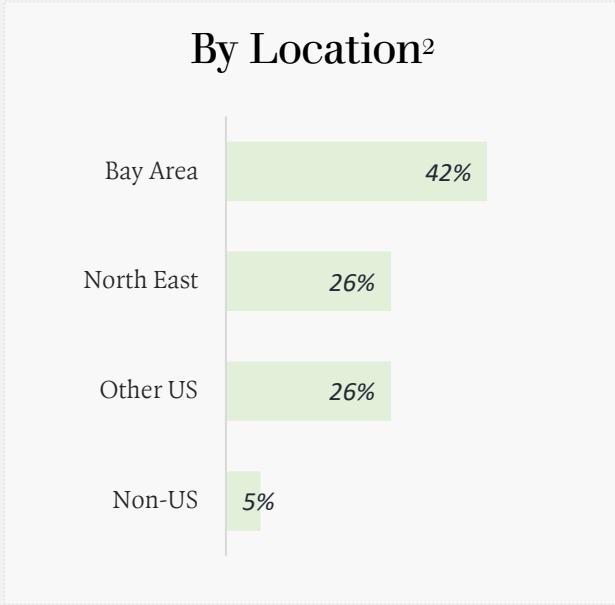
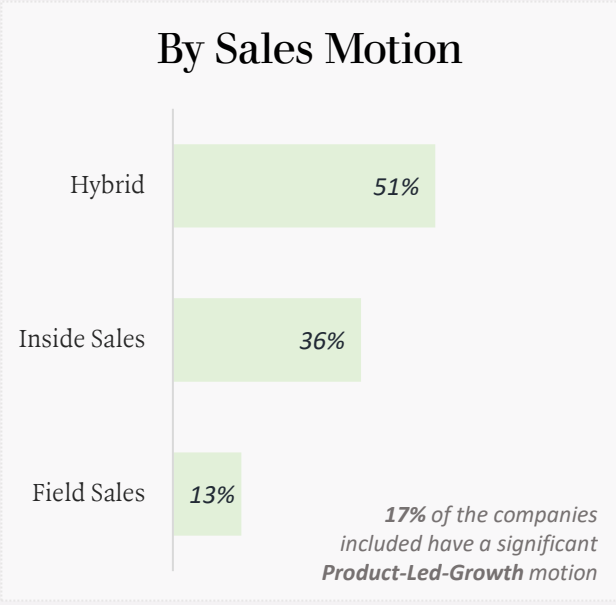
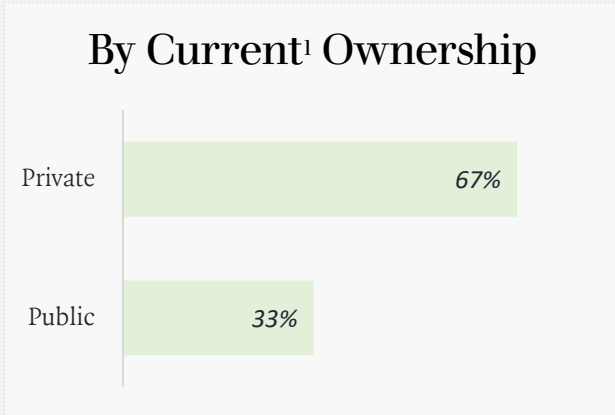
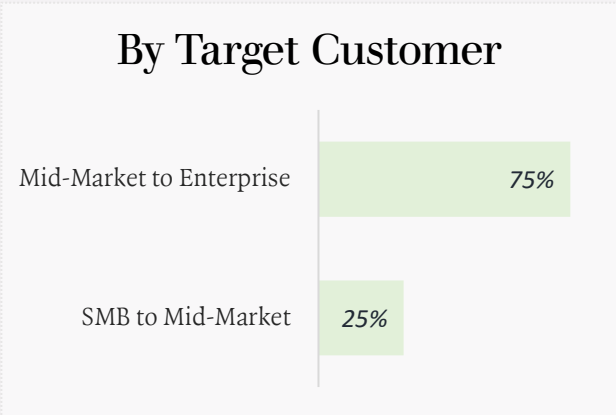
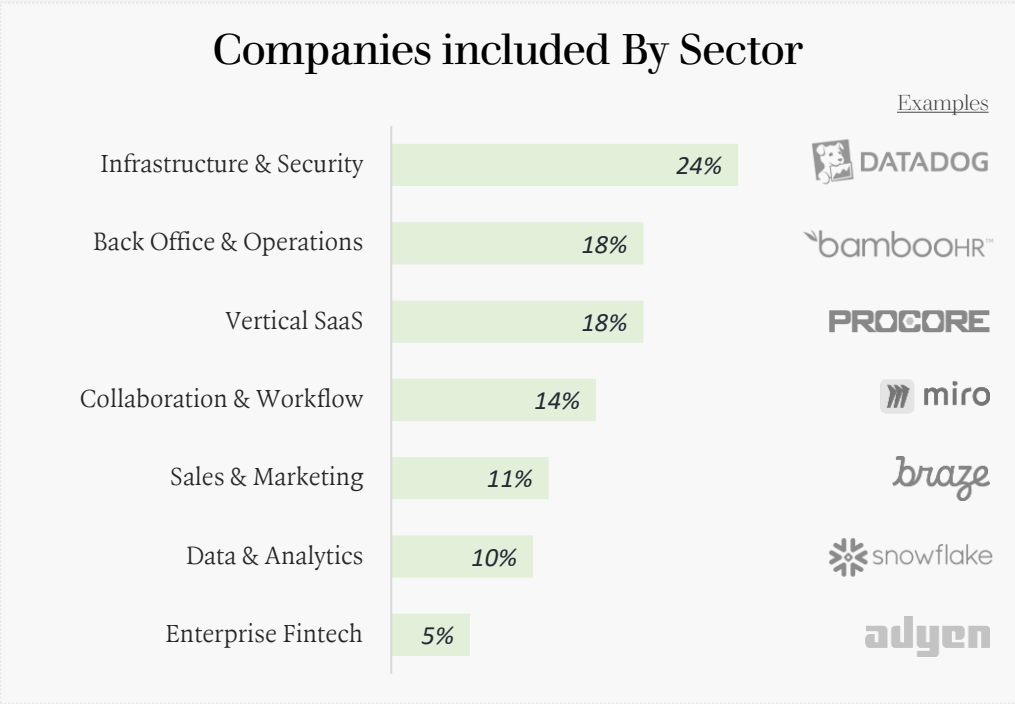
² Pluralsight went public in 2018 and has since been purchased

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

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

THE Firmographics

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



¹ As of August 2022; Pluralsight went public in 2018 and was purchased in 2020
² Location of Company Headquarters; many companies included have operations internationally
 Trademarks are the property of their respective owners. None of the companies illustrated have endorsed or recommended the services of ICONIQ

METHODOLOGY

Overview & Data Sources

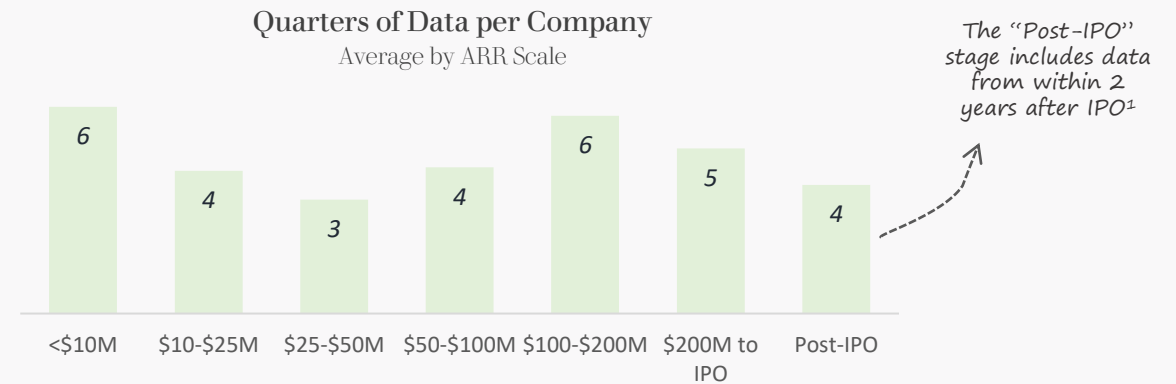
This analysis summarizes quarterly operating and financial data from the SaaS companies included. All views are aggregated or anonymized to protect the data privacy of individual companies.

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

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

N-sizes

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



Public Companies

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

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

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

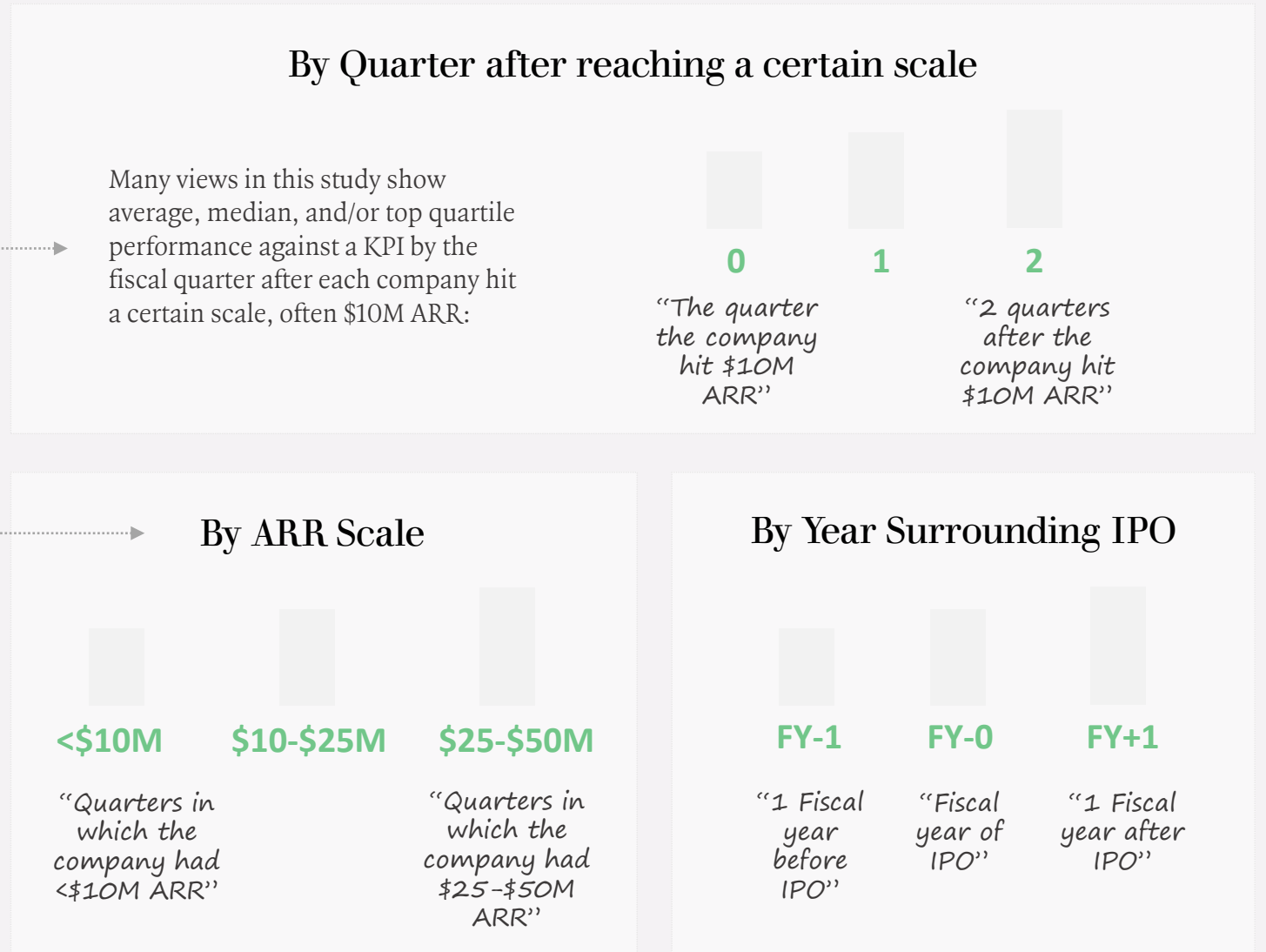
METHODOLOGY

The Analysis

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

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

- Top Performance** Top Quartile for a given metric¹
- Scaling to \$50M** Trends from \$1M to \$50M ARR
- Pre- and Post-IPO** Trends from the years surrounding IPO
- Metric to Watch** View includes one of our "Metrics to Watch"



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

METHODOLOGY

Our Resilience Framework

For context on how companies have performed against key metrics through recent market turbulence, we've identified a subset of B2B SaaS companies included¹ as particularly “resilient” based on an overall health score.

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

| | <i>Health Scale</i> | | <i>Weight in Health Score</i> |
|--|---------------------|----------------|-------------------------------|
| | <i>Less Healthy</i> | <i>Healthy</i> | |
| Topline attainment <i>Net new ARR²</i> | <80% | >90% | 30% |
| Rule of 40 | <20% | >40% | 30% |
| YoY ARR growth | <30% | >75% | 15% |
| Runway | <1 year | >2 years | 12.5% |
| Bottomline attainment <i>Operating income³</i> | <80% | >90% | 12.5% |

¹ See companies included in The Companies Included section

² Revenue was utilized where net new ARR data was not available

³ FCF or EBITDA was utilized where operating income data was not available

2

Executive Summary

*The ICONIQ Growth Enterprise Five
What to Expect in 2022 & Beyond*

Metrics to Watch

Learnings from Resilient Companies

Key Insights



THE ICONIQ GROWTH Enterprise Five

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 margin²

4 Net Magic Number

Current Q net new ARR / prior Q S&M OpEx³

5 ARR per FTE

EOP ARR / EOP FTEs

Top Quartile Performance by ARR Scale¹

| | \$1-\$10M | \$10-\$25M | \$25-\$50M | \$50-\$100M | \$100-\$200M | \$200M to IPO | Post-IPO ⁴ |
|------------------|---------------|---------------|------------|-------------|--------------|---------------|-----------------------|
| YoY ARR Growth | 430% | 170% | 135% | 105% | 80% | 75% | 60% |
| Net \$ Retention | 130% | 130% | 125% | 130% | 125% | 130% | 130% |
| Rule of 40 | Less Relevant | Less Relevant | 95% | 75% | 70% | 70% | 65% |
| Net Magic Number | 2.3x | 1.5x | 1.5x | 1.5x | 1.2x | 1.1x | 1.0x |
| ARR per FTE | \$100K | \$165K | \$195K | \$220K | \$265K | \$285K | \$335K |



The ICONIQ SaaS Glossary

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

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

¹ Quarterly operating and financial data from the companies included

² Alternative Rule of 40 calculations include YoY Revenue Growth and EBITDA Margin

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

⁴ Within 2 fiscal years after IPO

What to expect

IN 2022 & BEYOND

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

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

▶ Growth & Path to Profitability

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

▶ Spend & Burn

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

▶ GTM Efficiency

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

▶ Customer Health

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

¹ Based on Market data and consensus estimates as of 07/29/2022

² ICONIQ Analytics + Insights: Cost Management in a Turbulent Environment

³ ICONIQ Analytics + Insights: Demand and GTM Impact in a Turbulent Environment

Key Insights

ON THESE TOPICS

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

► Growth & Path to Profitability

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

Metric to Watch

Rule of 40

YoY ARR growth + FCF margin³

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

Lessons from Resilient Companies¹

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

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

Key Insights to Follow

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

¹ Quarterly operating and financial data from "Resilient Companies"; See our resilience framework in the Methodology section

² 2022 YTD annualized where applicable; includes Q2 2022 for select companies if data available

³ Alternative Rule of 40 calculations include YoY Revenue Growth and EBITDA Margin

Key Insights

ON THESE TOPICS

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

► Spend & Burn

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

Metric to Watch

Burn Multiple

FCF / net new ARR

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

Lessons from Resilient Companies¹

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

| | Median Burn Multiple ³ |
|-----------------------|-----------------------------------|
| 2022 YTD ² | 1.6x |
| 2021 | 1.1x |
| 2020 | 1.3x |

Key Insights to Follow

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

¹ Quarterly operating and financial data from the non-profitable "Resilient Companies"; See our resilience framework in the Methodology section

² 2022 YTD annualized where applicable; includes Q2 2022 for select companies if data available

³ Only non-profitable companies included in the burn multiple calculation

Key Insights

ON THESE TOPICS

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

▶ GTM Efficiency

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

Metric to Watch

Net Magic Number

Current Q net new ARR / prior Q S&M OpEx³

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

Lessons from Resilient Companies¹

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

| | Median NMN |
|-----------------------|------------|
| 2022 YTD ² | 0.9x |
| 2021 | 1.8x |
| 2020 | 1.5x |

Key Insights to Follow

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

¹ Quarterly operating and financial data from "Resilient Companies"; See our resilience framework in the Methodology section

² 2022 YTD annualized where applicable; includes Q2 2022 for select companies if data available

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

Key Insights

ON THESE TOPICS

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

▶ Customer Health

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

Metric to Watch

Net \$ Retention

$(BOP\ ARR + expansion\ ARR - gross\ churn\ ARR) / BOP\ ARR^3$

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

Lessons from Resilient Companies¹

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

| | Median NDR |
|-----------------------|------------|
| 2022 YTD ² | 125% |
| 2021 | 126% |
| 2020 | 124% |

Key Insights to Follow

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

¹ Quarterly operating and financial data from "Resilient Companies"; See our resilience framework in the Methodology section

² 2022 YTD annualized where applicable; includes Q2 2022 for select companies if data available

³ Net retention can be calculated as annual net retention, annualized quarterly retention, or customer cohort retention

3

Topline Growth & Operational Efficiency

A detailed look at the data:

Topline Health

Growth Efficiency

Spend Profile



The data behind scaling a B2B SaaS business

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

▶ Topline Health

ARR Growth

The ARR Funnel

Drivers of new ARR | *New logo vs. expansion*

Drivers of churned ARR | *Logo vs. downsell churn*

ARR Retention | *Net & gross dollar retention*

New Logo Growth

Customer Expansion Growth

Moving up-Market | *ARR per customer*

Page 20, 21

Appendix 48

Page 22, 23

Page 24

Page 25-26

Page 27

Page 28

Page 29

▶ Growth Efficiency

Spend vs. Revenue | *Spend to revenue ratio*

Capital Consumption Ratio

COGS vs. Revenue | *Gross margin*

Profitability | *FCF margin*

Burn vs. Net New ARR | *Burn multiple*

Growth vs. Profitability | *Rule of 40*

GTM Efficiency | *Magic number*

Headcount Productivity | *ARR per FTE*

Page 30, 49

Page 31

Page 32

Page 33

Page 34

Page 35

Page 36, 37

Page 38

▶ Spend Profile

Headcount Efficiency | *OpEx per FTE*

Operational Expenses | *OpEx as a % of revenue; OpEx distribution*

Headcount Distribution

GTM Spend Profile

Cash Balance & Runway

Page 38-39

Page 40-41

Page 42-43

Page 43-44

Page 45

Topline Health | ARR Growth from \$10M to IPO

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

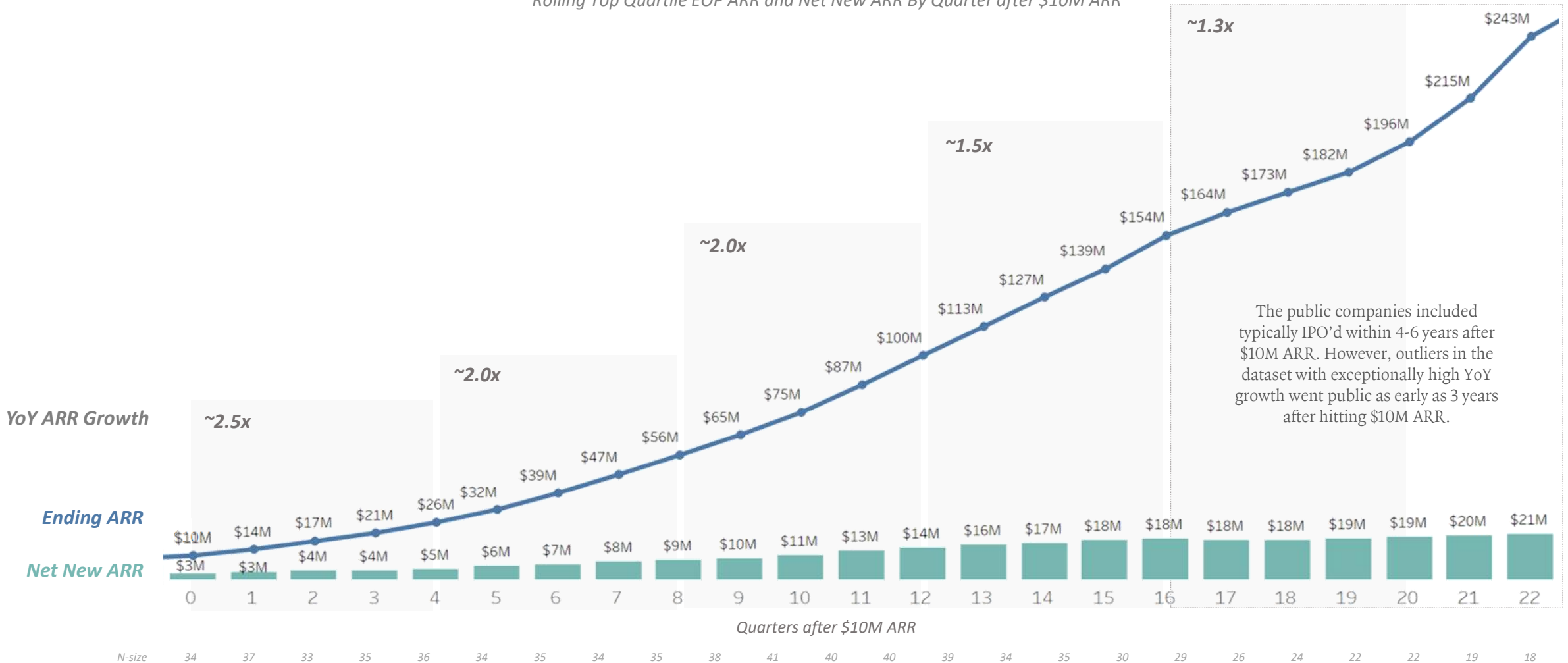
Top Performance

Scaling to \$50M

Pre- and Post-IPO

Metric to Watch

Top Performance YoY ARR Growth from \$10M ARR¹
 Rolling Top Quartile EOP ARR and Net New ARR By Quarter after \$10M ARR



¹ Quarterly operating and financial data from the companies included

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

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

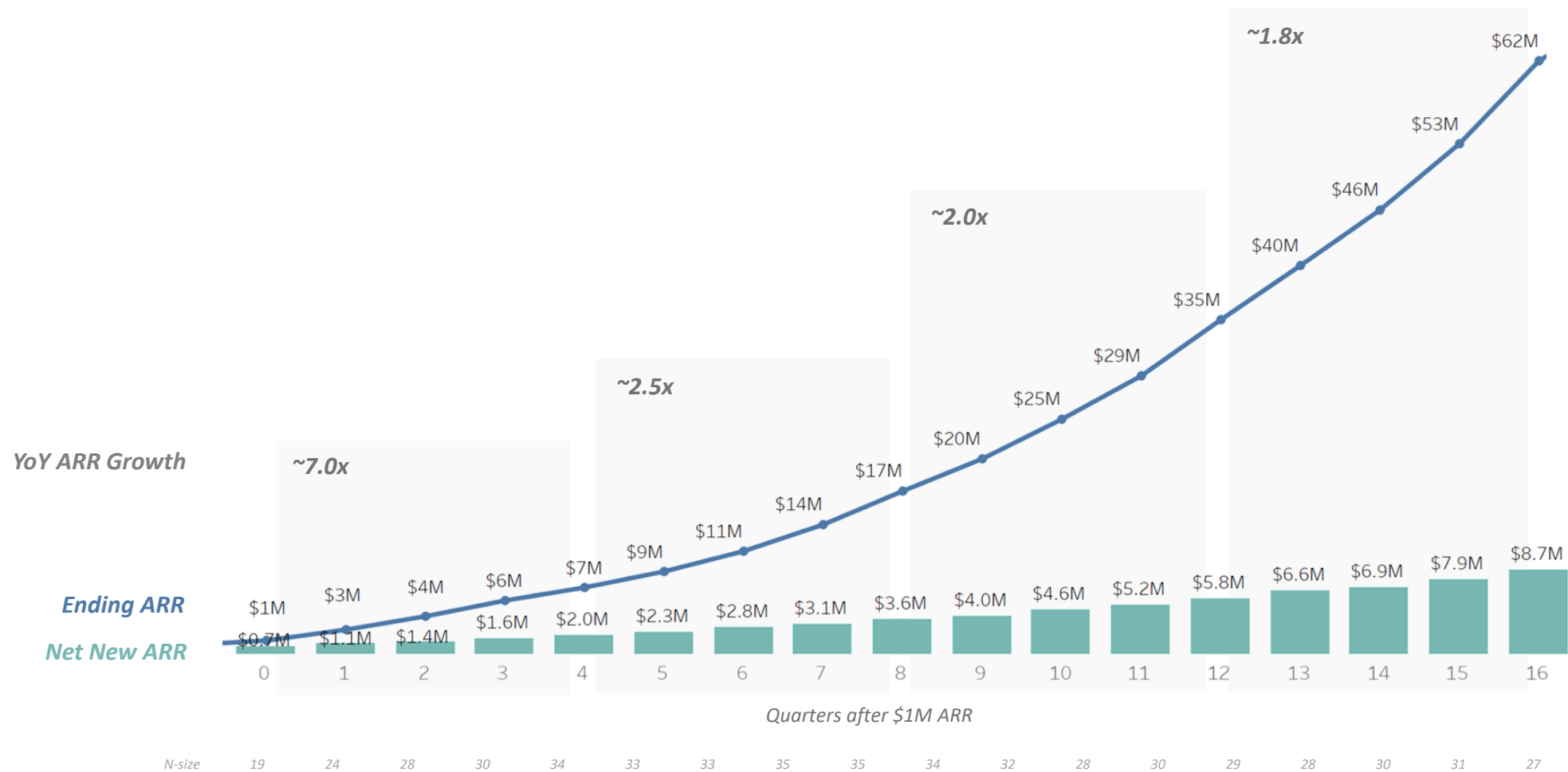
Top Performance

Scaling to \$50M

Pre- and Post-IPO

Metric to Watch

Top Performance YoY ARR Growth from \$1M ARR¹
 Rolling Top Quartile EOP ARR and Net New ARR By Quarters after \$1M ARR



N-size: 19, 24, 28, 30, 34, 33, 33, 35, 35, 34, 32, 28, 30, 29, 28, 30, 31, 27

¹ Quarterly operating and financial data from the companies included

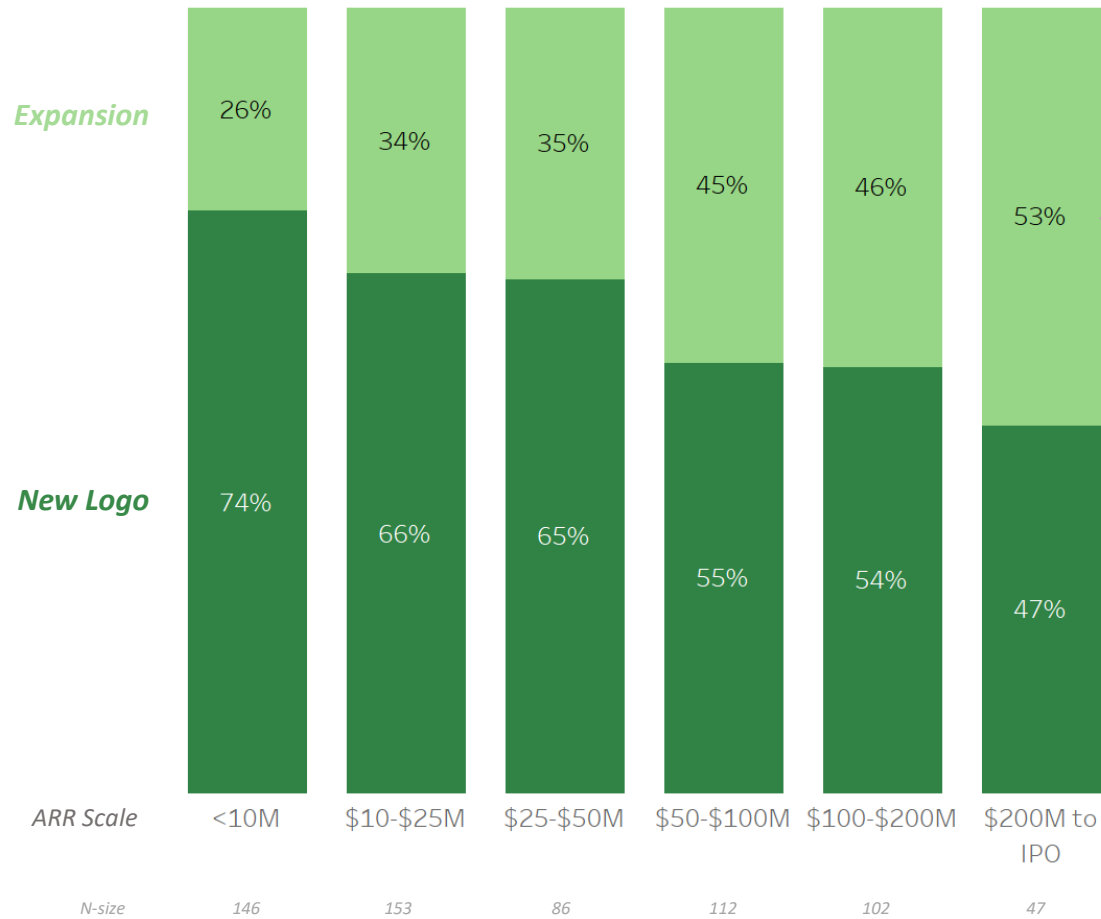
Topline Health | Drivers of ARR Growth

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

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

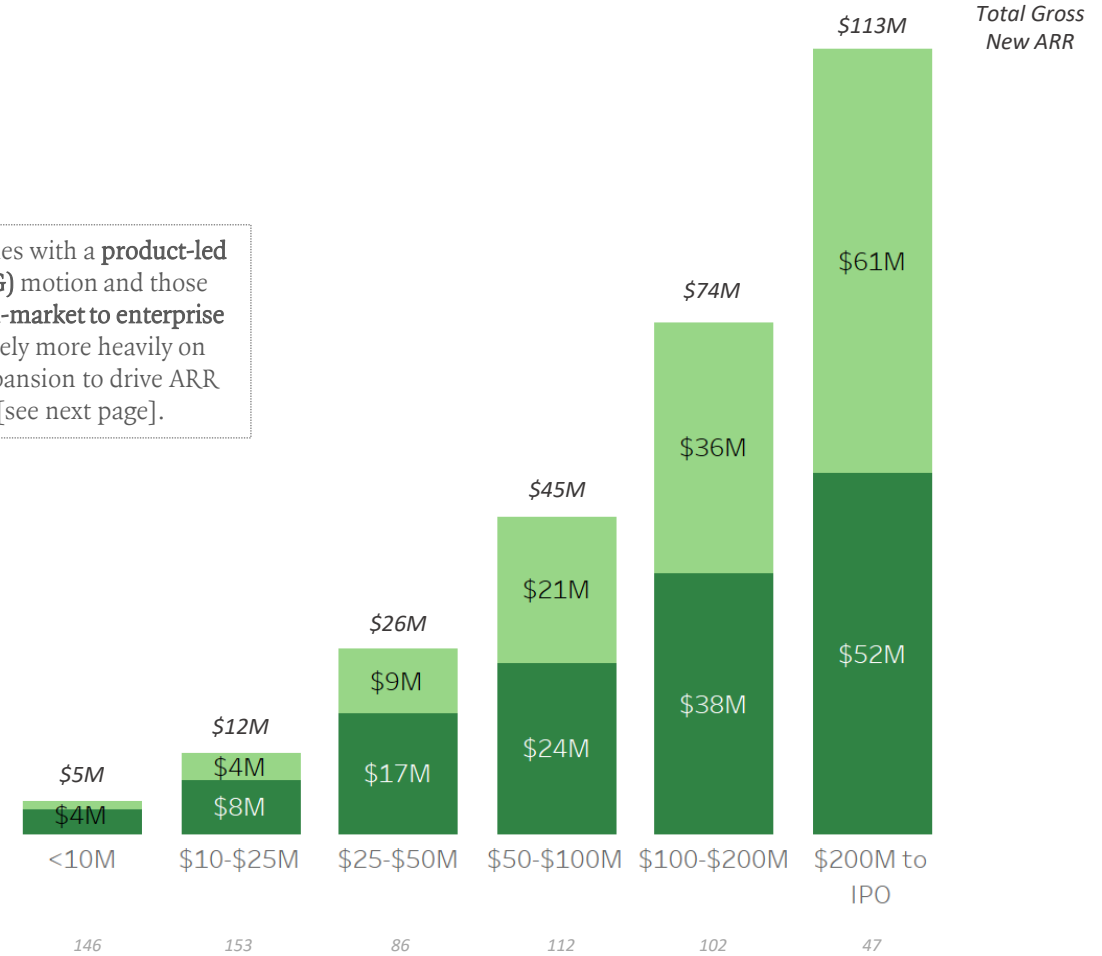
For more context on these metrics, reference the [full ARR funnel](#) in the Appendix.

Gross New ARR Distribution¹
Average % of Gross New ARR by Type and ARR Scale



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

Annualized Gross New ARR¹
Average Annual Gross New ARR by Type and ARR Scale



Total Gross New ARR

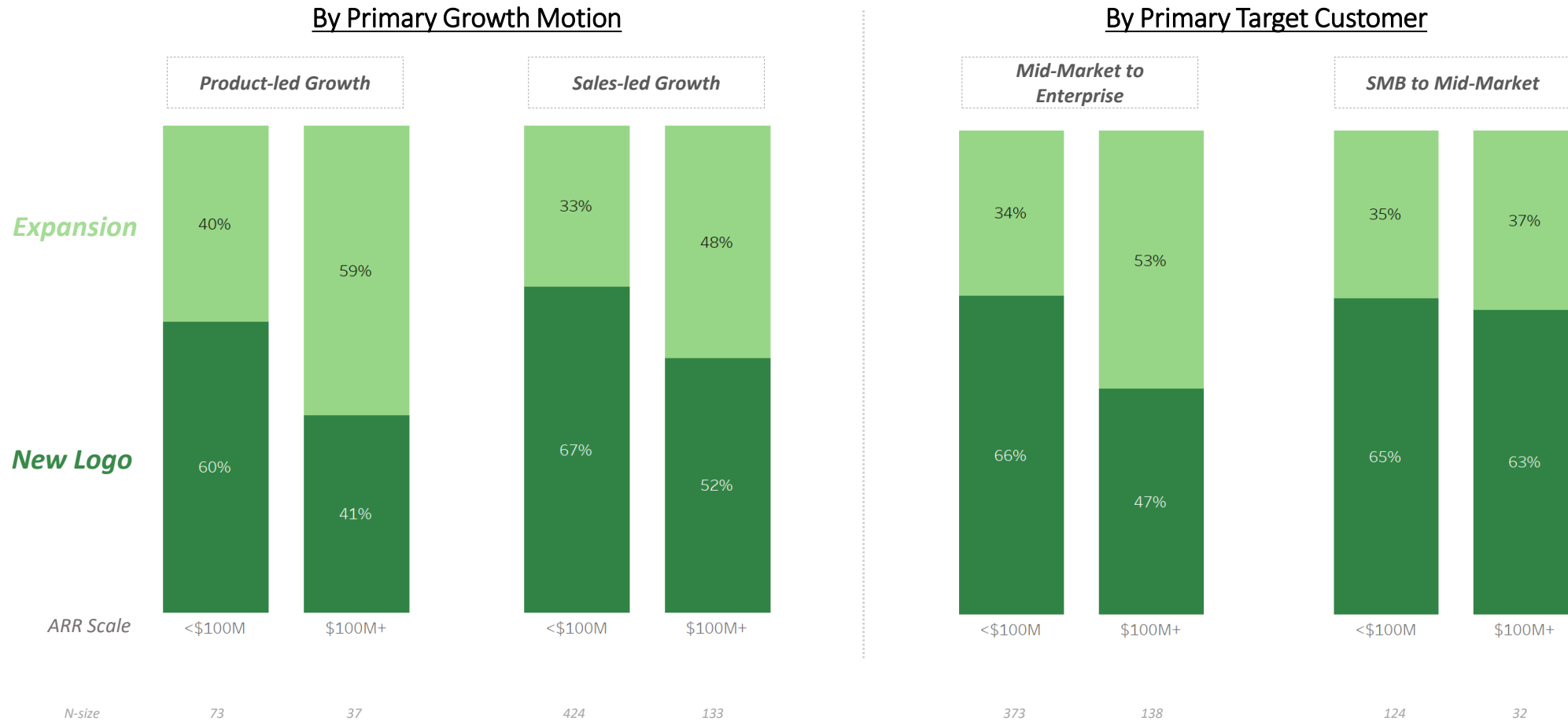
¹ Quarterly operating and financial data from the companies included

Topline Health | Drivers of ARR Growth by GTM Motion

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

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

Gross New ARR Distribution¹
Average % of Gross New ARR by Type and ARR Scale



¹ Quarterly operating and financial data from the companies included

Topline Health | Drivers of Churned ARR

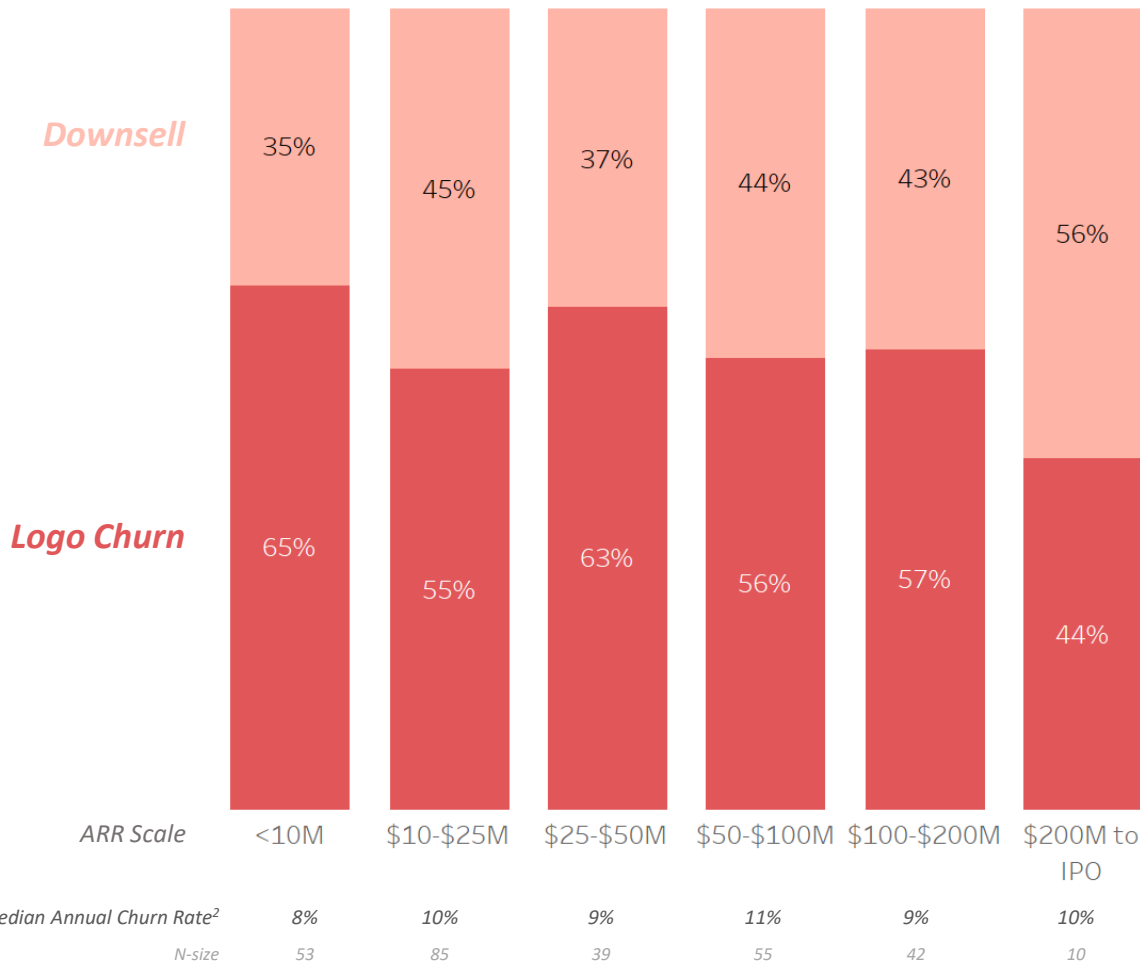
As existing customers make up an increasing proportion of new ARR, their contribution to churn increases. Customer downsell makes up a larger share of churn as companies scale – especially for companies with consumption or user-based pricing models.

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

For more context on these metrics, reference the [full ARR funnel](#) in the Appendix.

Gross Churn Distribution¹

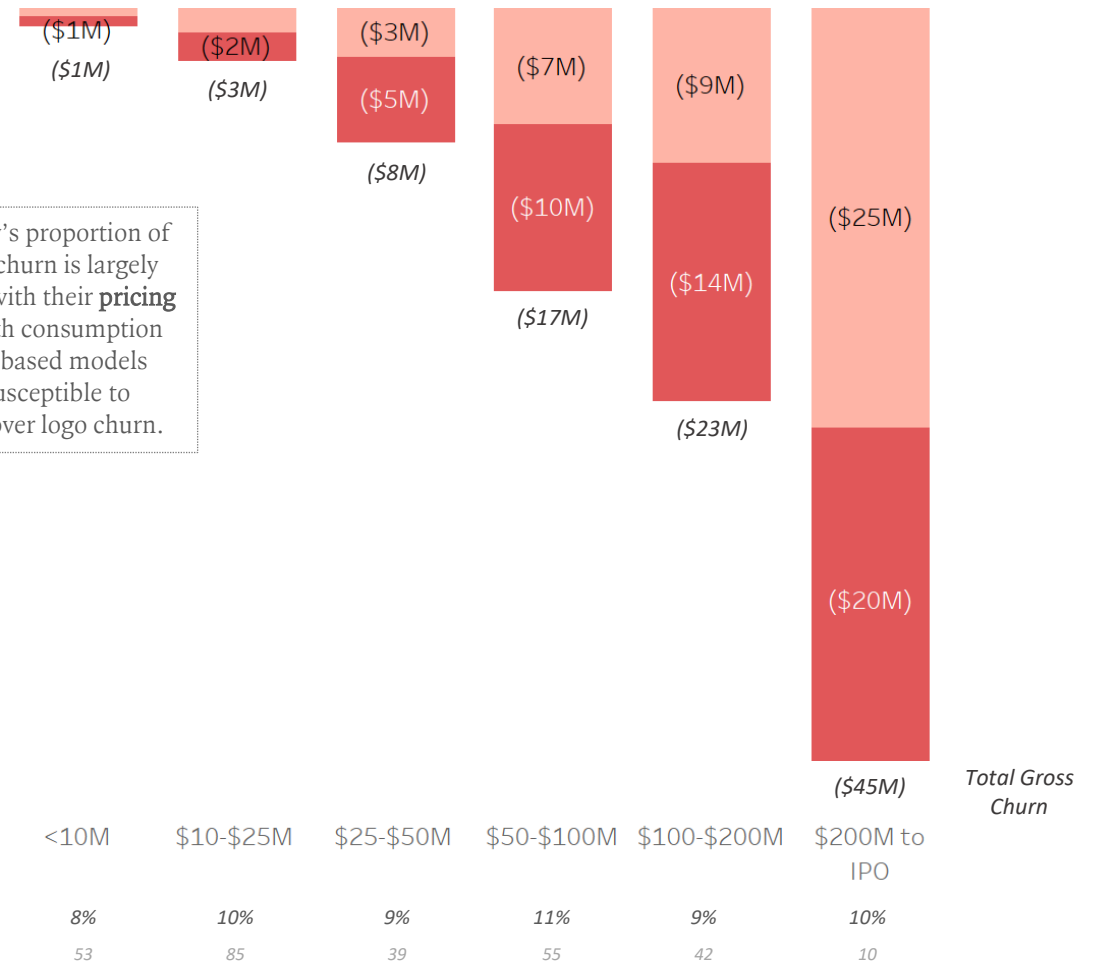
Average % of Gross Churn by Type and ARR Scale



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

Annualized Gross Churn¹

Average Annual Gross Churn by Type and ARR Scale



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

Topline Health | ARR Retention

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

Top Performance

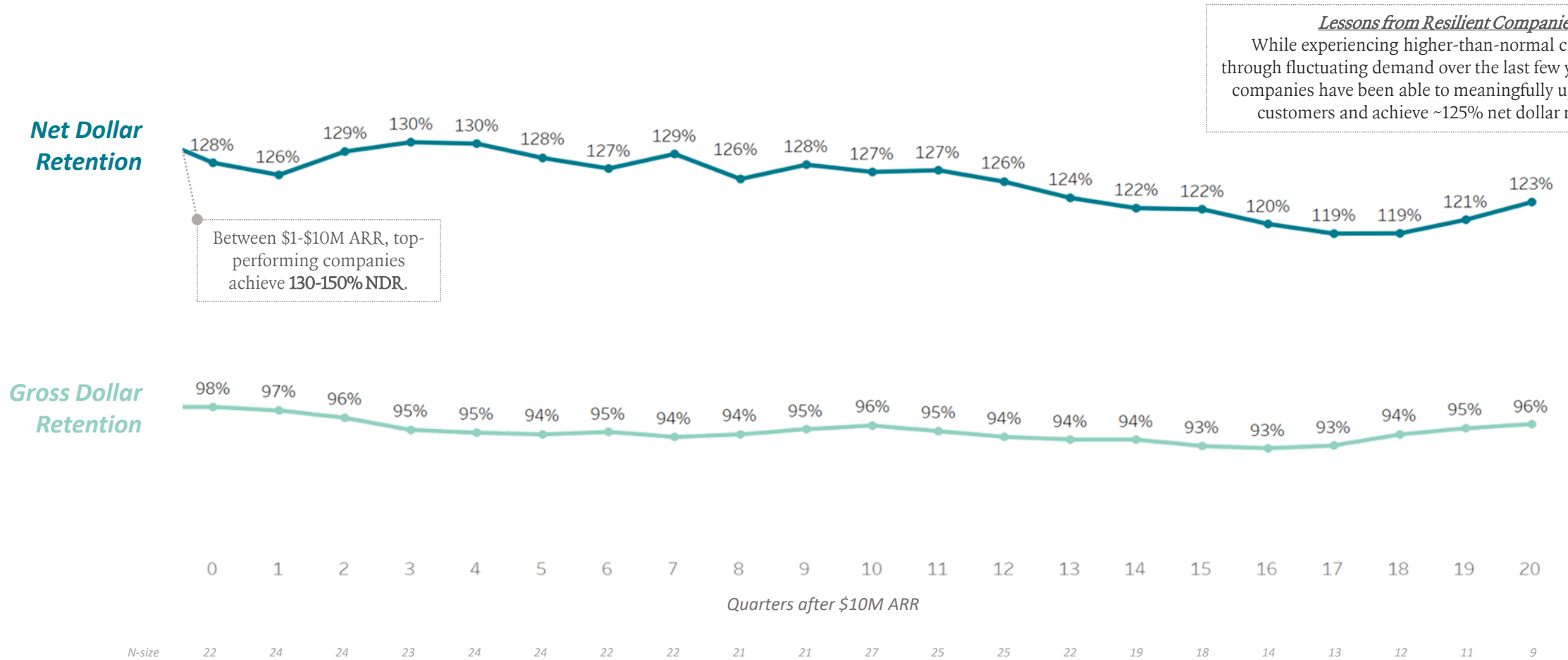
Scaling to \$50M

Pre- and Post-IPO

Metric to Watch

Top Performance ARR Retention¹

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



¹ Quarterly operating and financial data from the companies included

Topline Health | Net Dollar Retention Surrounding IPO

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

Top Performance

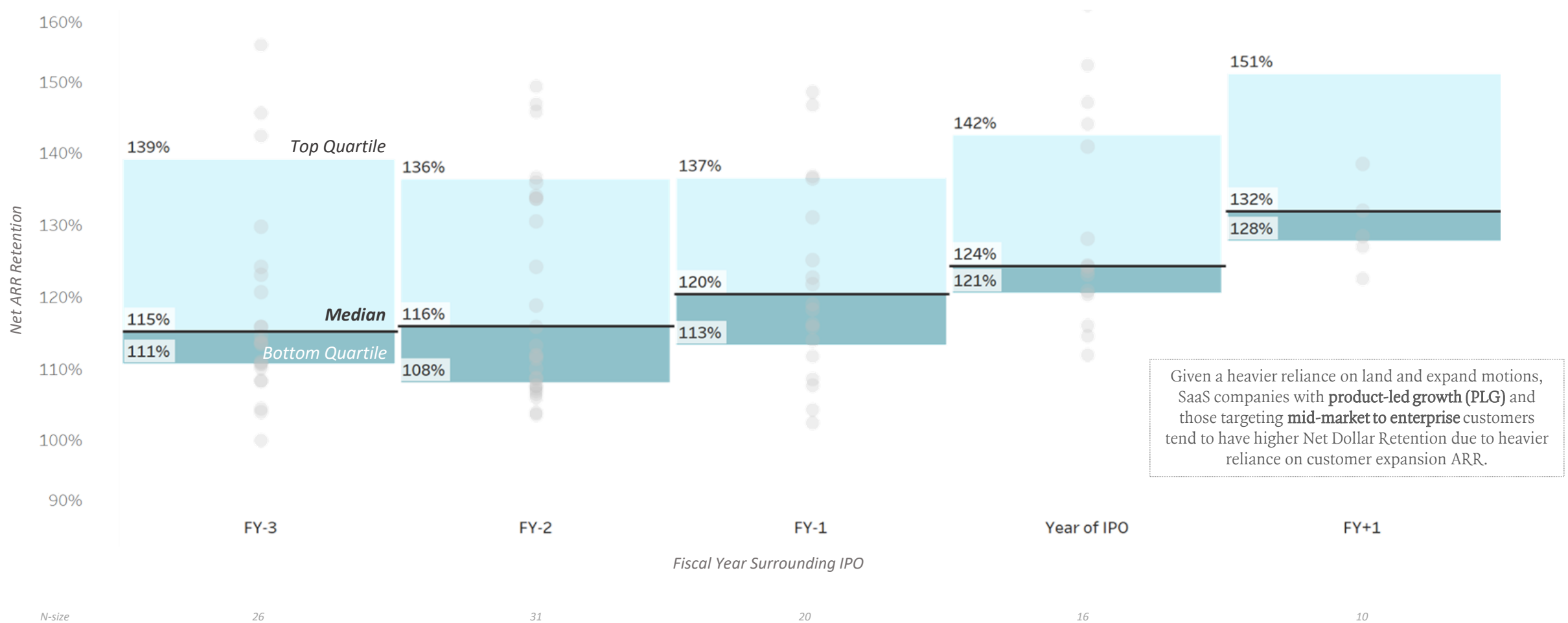
Scaling to \$50M

Pre- and Post-IPO

Metric to Watch

Net ARR Retention Surrounding IPO¹

Top, Median, and Bottom Quartile by Public Company and Quarter



¹ Quarterly operating and financial data from the companies included

Topline Health | New Logo Growth

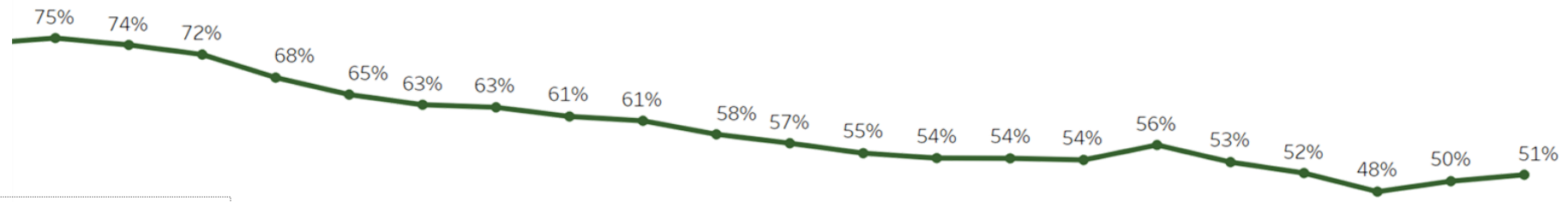
Top Performance
Scaling to \$50M
Pre- and Post-IPO
Metric to Watch

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

Top Performance New Logo Growth¹

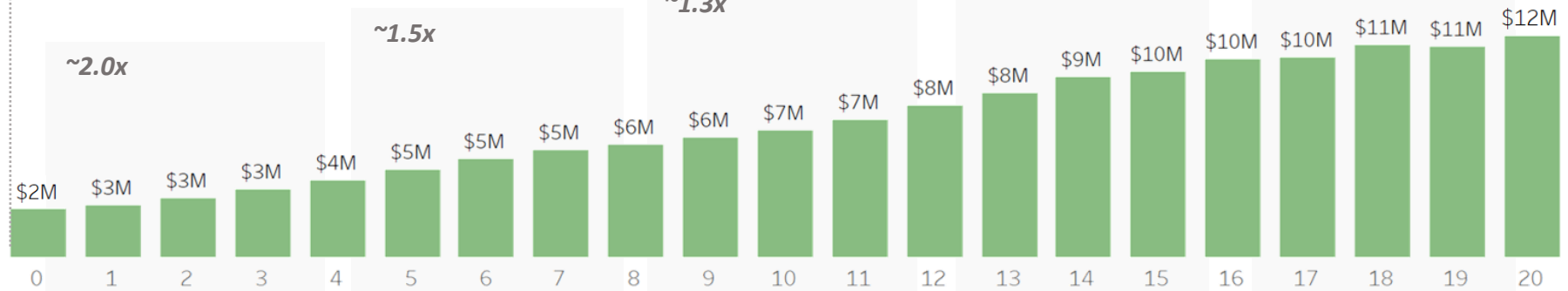
Rolling Top Quartile Gross New Logo ARR and YoY New Logo ARR Growth by Quarters after \$10M ARR

New Logo as a %
of Total Gross
New ARR



In the early stages, we believe both new logo growth and velocity are critical to demonstrating **product-market fit and supporting sustained long-term growth.**

Gross New
Logo ARR



Quarters after \$10M ARR

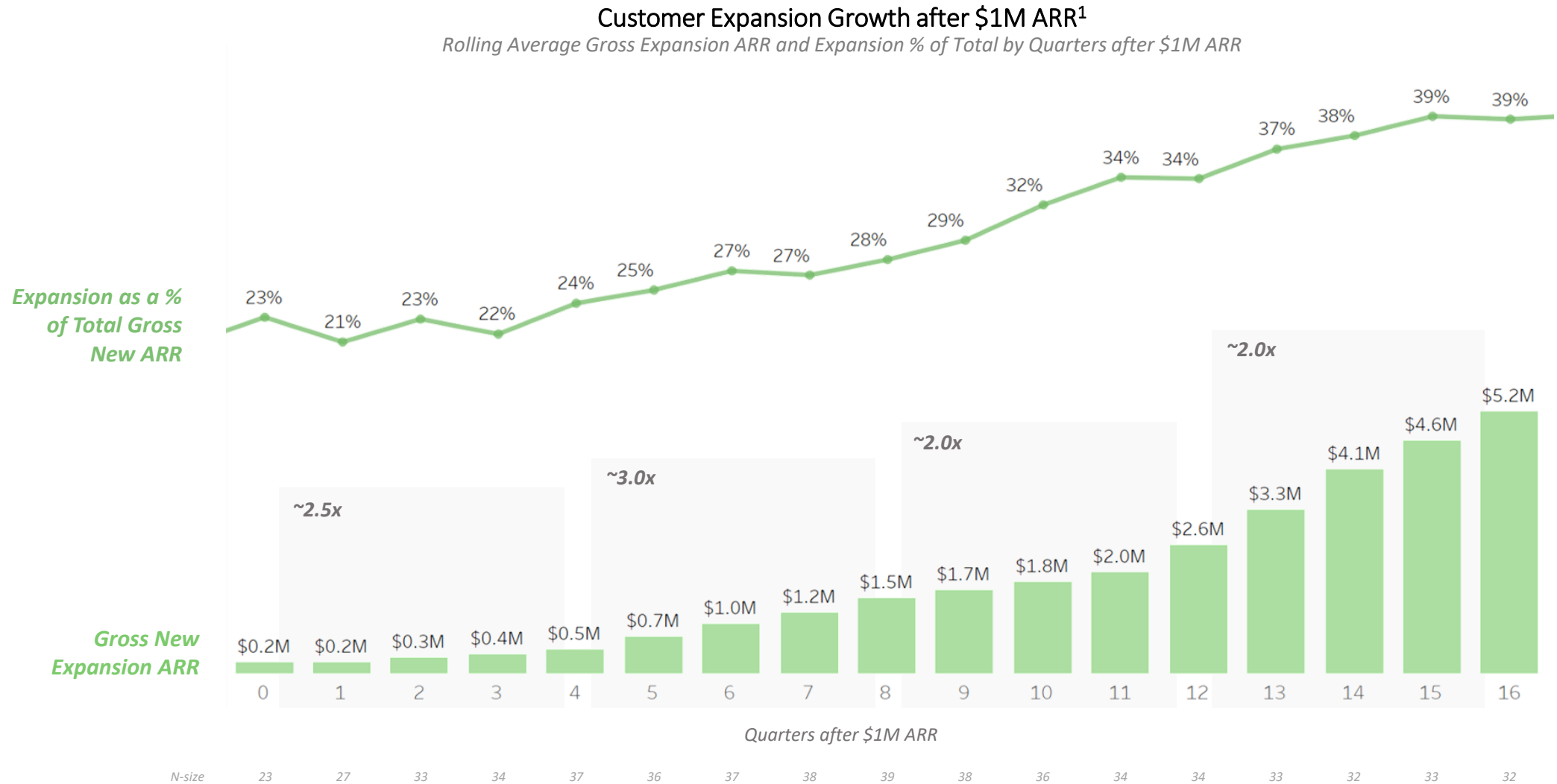
N-size 24 28 26 24 26 28 26 27 26 27 29 26 26 23 21 18 16 14 12 12 11

¹ Quarterly operating and financial data from the companies included

Topline Health | Customer Expansion Growth

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

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



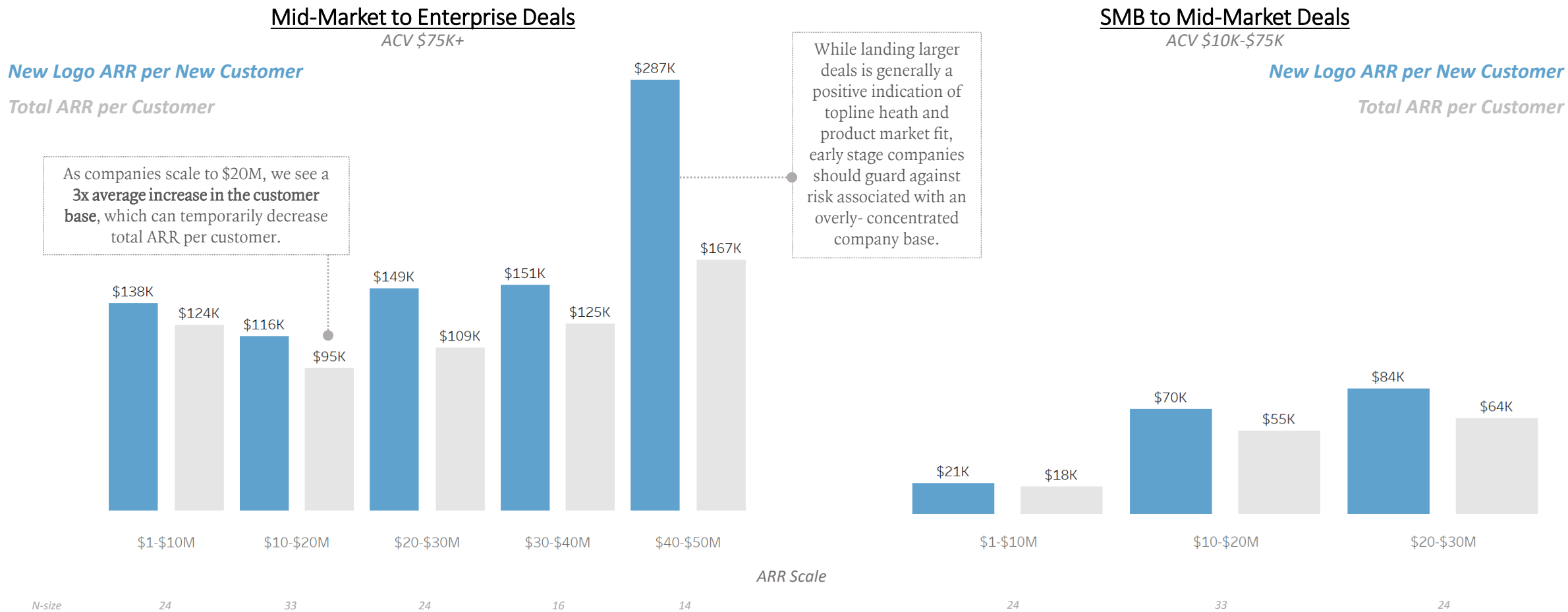
¹ Quarterly operating and financial data from the companies included

Topline Health | Moving Up-Market

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

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

New Logo ARR per New Customer vs. Total ARR per Customer by ACV¹
Median by Early Stage ARR Scale



As companies scale to \$20M, we see a **3x average increase in the customer base**, which can temporarily decrease total ARR per customer.

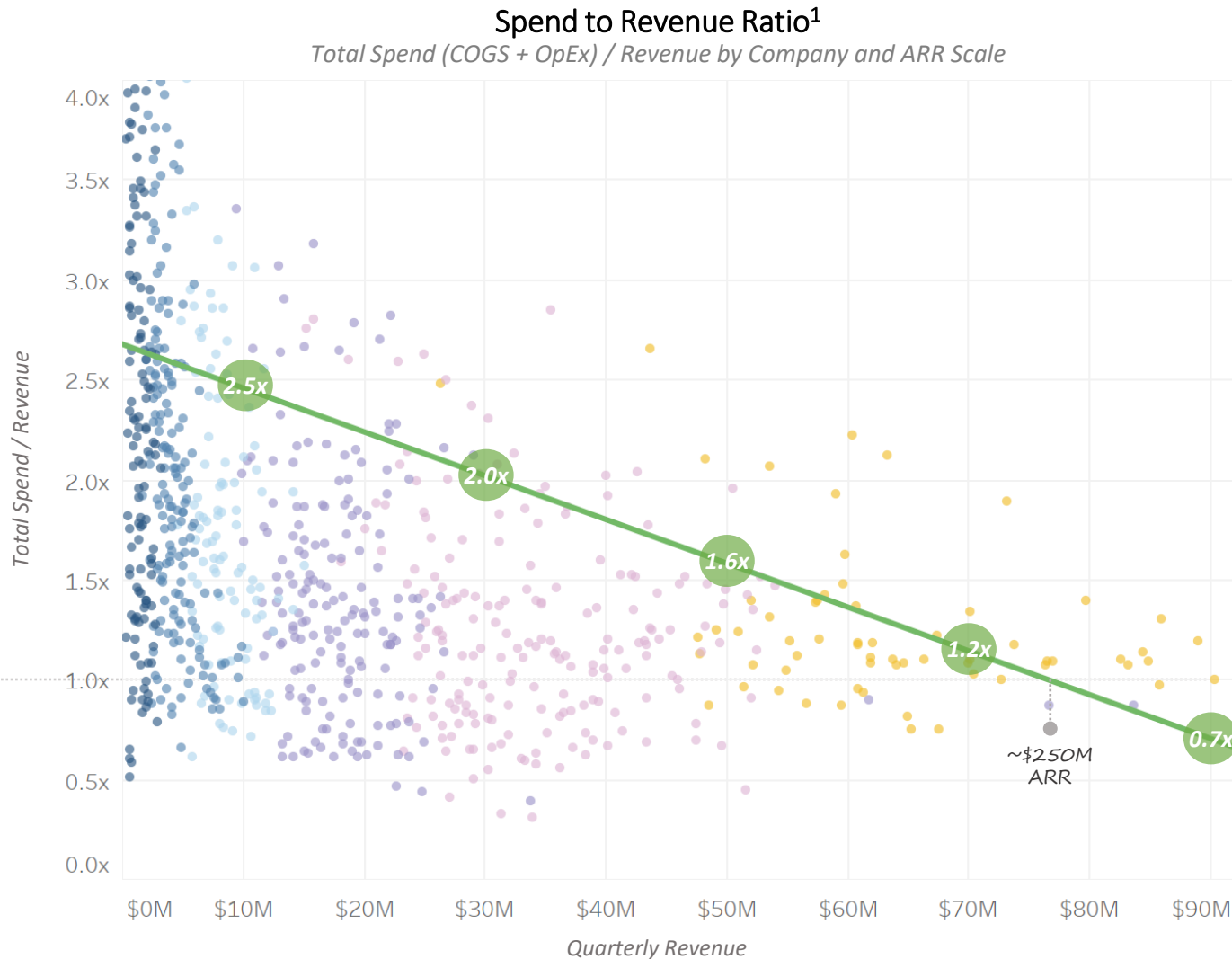
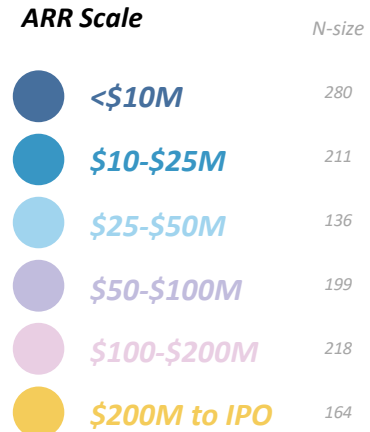
While landing larger deals is generally a positive indication of topline health and product market fit, early stage companies should guard against risk associated with an overly-concentrated company base.

¹ Quarterly operating and financial data from the companies included

Growth Efficiency | Spend vs. Revenue

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

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



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

Spend outpaces revenue

Revenue outpaces spend

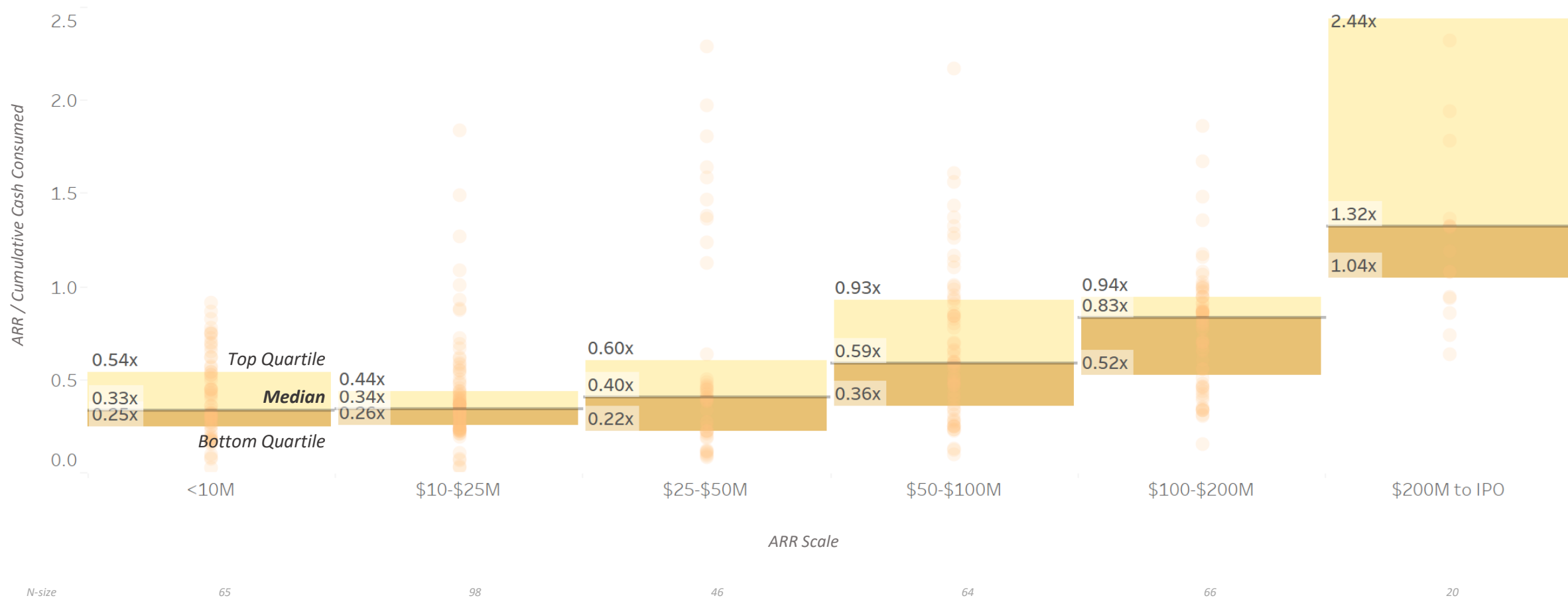
¹ Quarterly operating and financial data from the companies included

Growth Efficiency | Capital Consumption Ratio

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

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

Capital Consumption Ratio¹
ARR / Cumulative Cash Consumed² Top, Median, and Bottom Quartile by Quarters after \$10M ARR



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

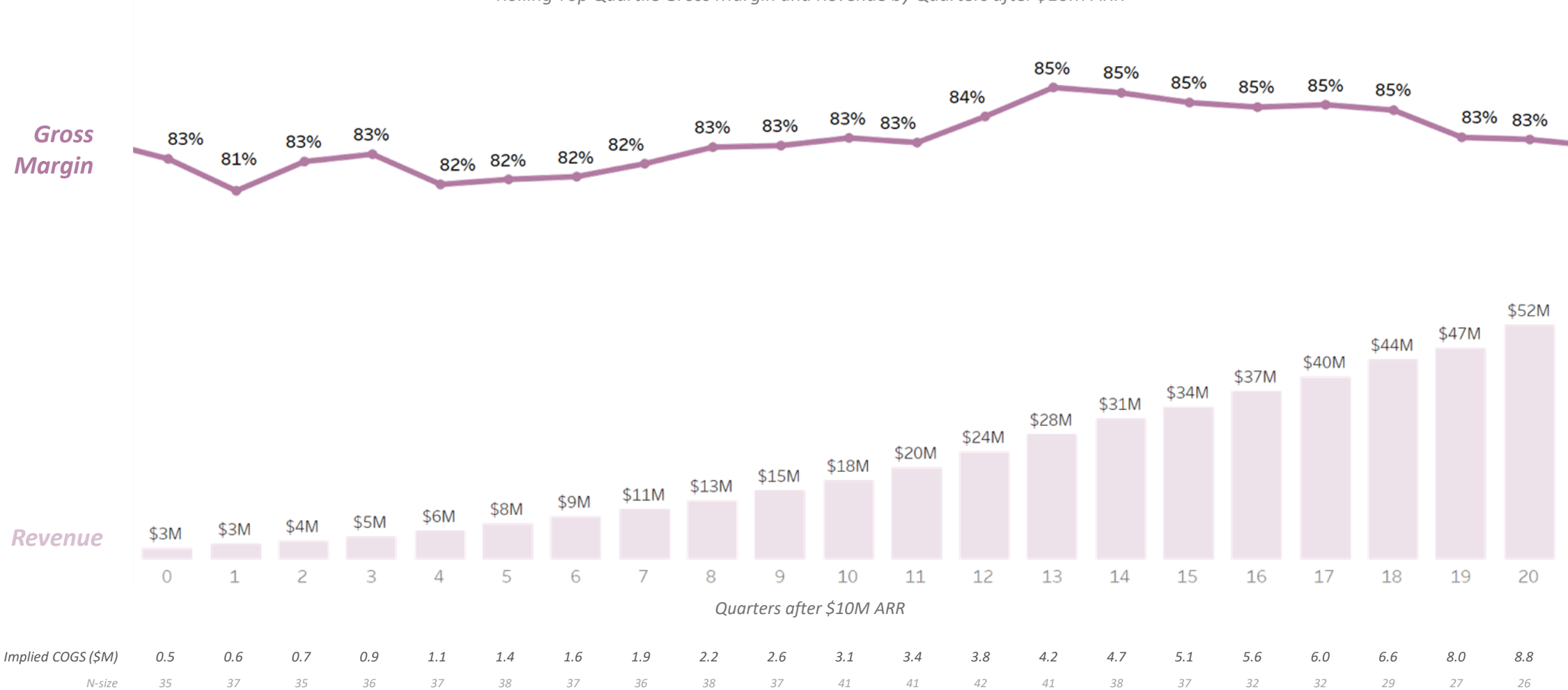
Growth Efficiency | Gross Margin

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

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

Top Performance Gross Margin¹

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



¹ Quarterly operating and financial data from the companies included

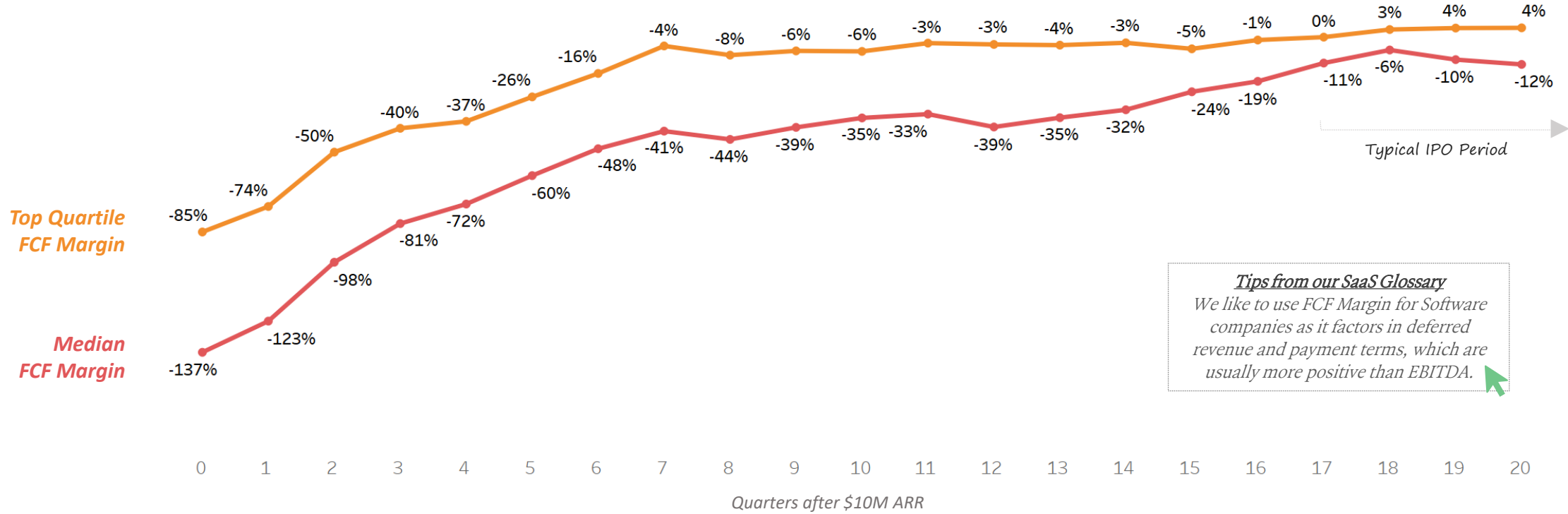
Growth Efficiency | Path to Profitability

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

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

FCF Margins¹

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



Tips from our SaaS Glossary
We like to use FCF Margin for Software companies as it factors in deferred revenue and payment terms, which are usually more positive than EBITDA.

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

¹ Quarterly operating and financial data from the companies included

Growth Efficiency | Burn vs. Net New ARR

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

Top Performance

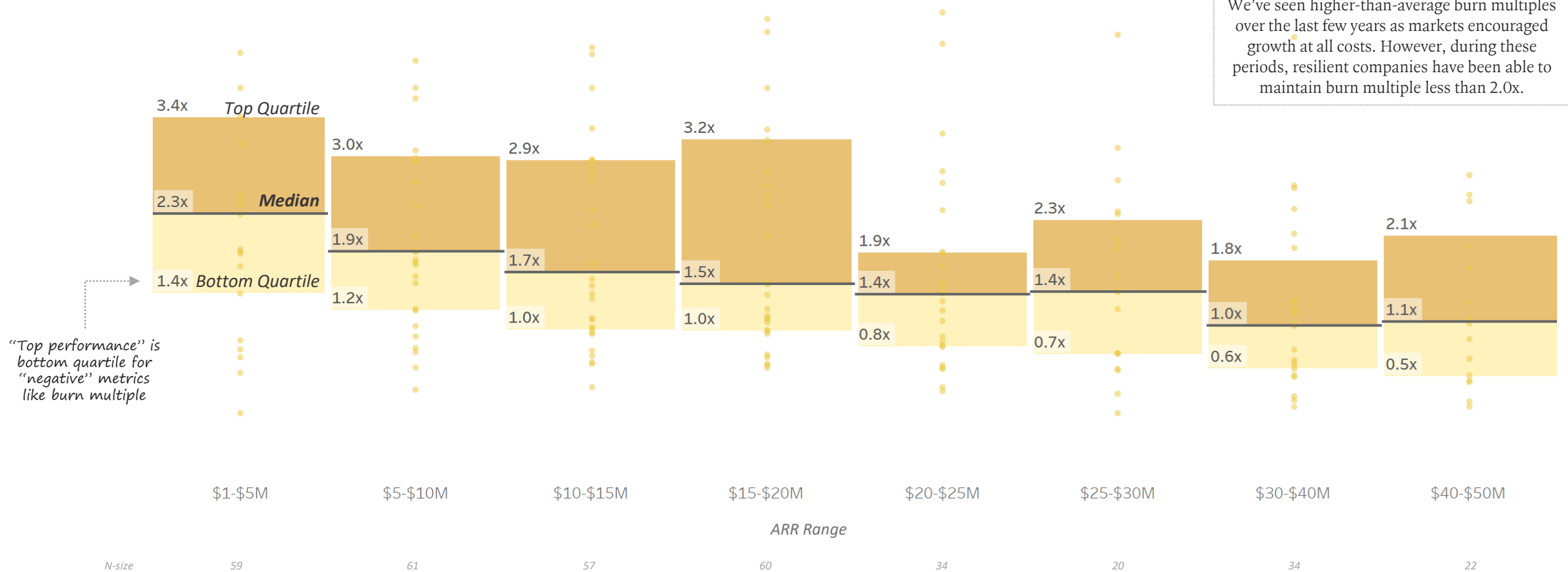
Scaling to \$50M

Pre and Post-IPO

Metric to Watch

Burn Multiple (FCF / Net New ARR) Scaling to \$50M ARR¹

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



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

"Top performance" is bottom quartile for "negative" metrics like burn multiple

¹ Quarterly operating and financial data from the companies included

Growth Efficiency | Growth vs. Profitability

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

Top Performance

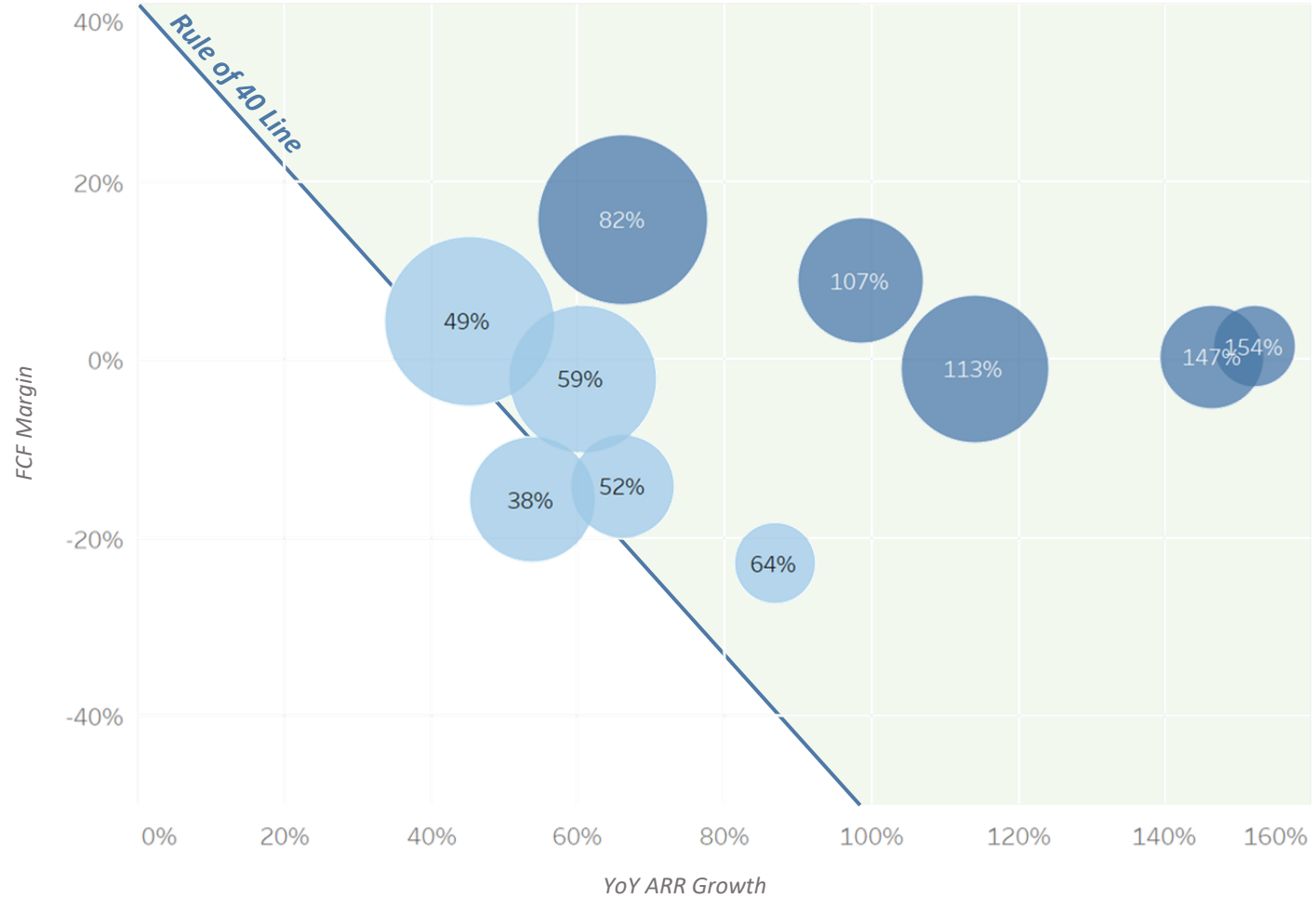
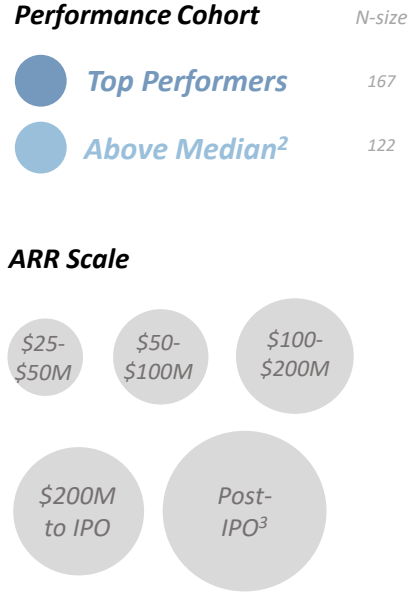
Scaling to \$50M

Pre- and Post-IPO

Metric to Watch

Rule of 40: YoY ARR Growth + FCF Margin¹

Average Rule of 40 by Performance Cohort and ARR Scale



Lessons from Resilient Companies

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

Tips from our SaaS Glossary

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



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

Growth Efficiency | Go-to-market Efficiency

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

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

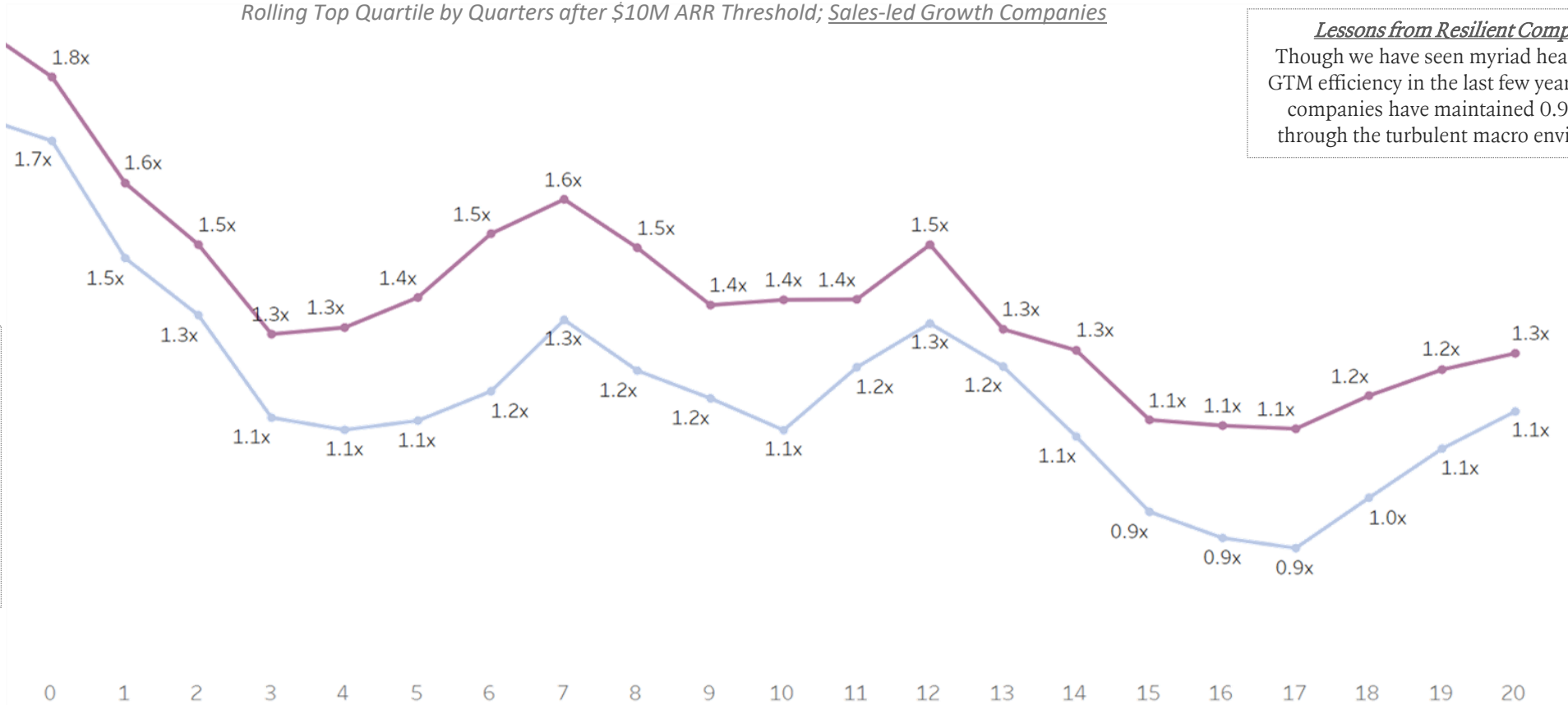
Gross Magic Number

Current quarter gross new ARR / prior quarter S&M OpEx²

Net Magic Number

Current quarter net new ARR / prior quarter S&M OpEx²

Gross and Net Magic Number¹
Rolling Top Quartile by Quarters after \$10M ARR Threshold; Sales-led Growth Companies



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

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

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

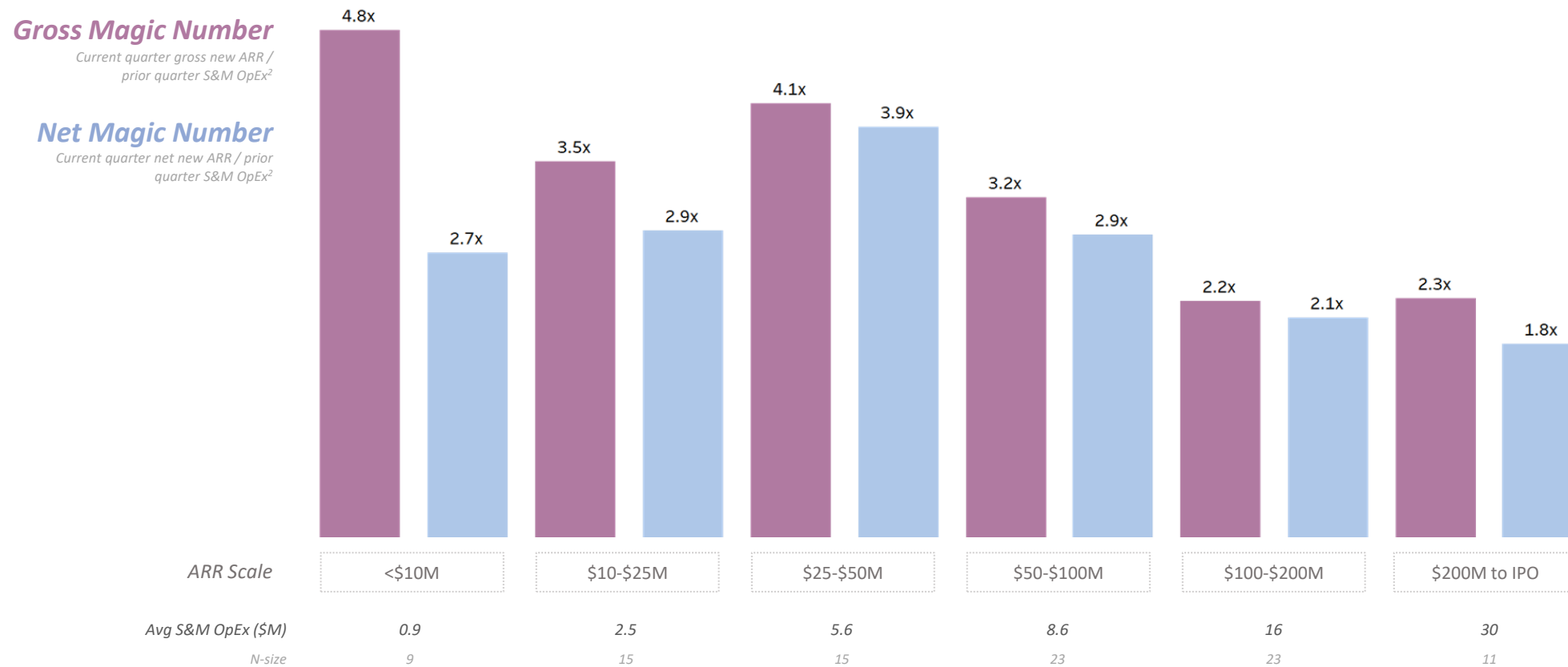
¹ Quarterly operating and financial data from the companies included
² Quarter of S&M OpEx utilized in magic number calculations should depend on a given company's sales cycle

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

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

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

Gross and Net Magic Number¹
Rolling Top Quartile by ARR Scale; Product-led Growth Companies



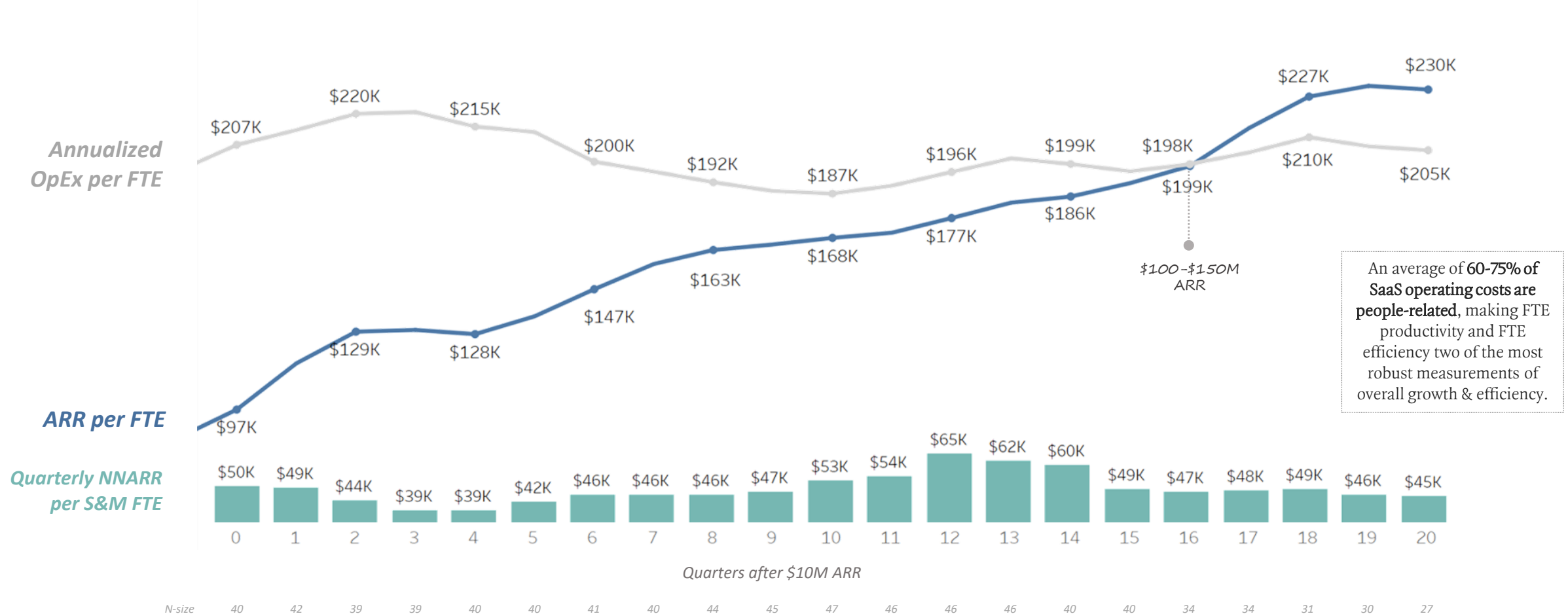
¹ Quarterly operating and financial data from the companies included
² Quarter of S&M OpEx utilized in magic number calculations should depend on a given company's sales cycle

Growth Efficiency | Headcount Productivity vs. Headcount Efficiency

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

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

ARR per FTE and Annualized OpEx per FTE¹
 Rolling Median by Quarters after \$10M ARR Threshold

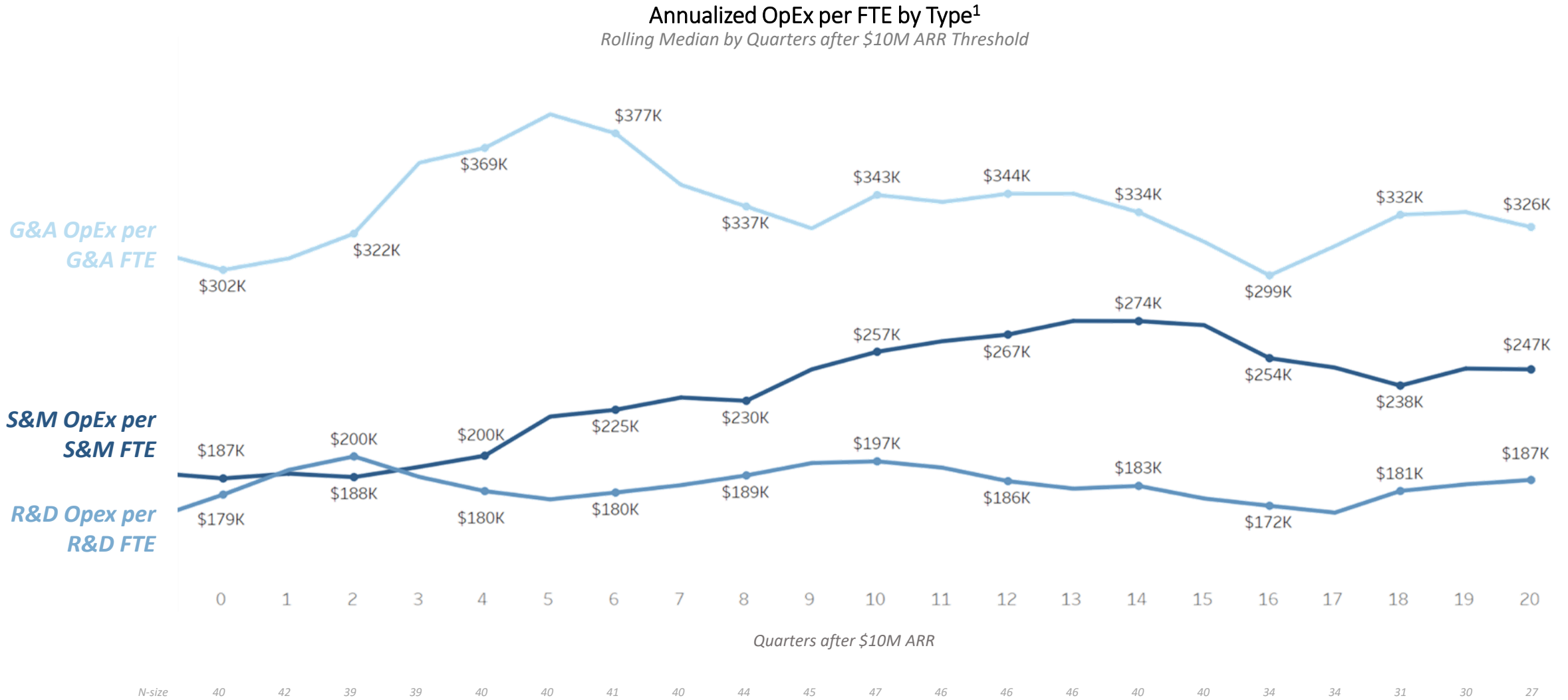


¹ Quarterly operating and financial data from the companies included

Spend Profile | Headcount Efficiency

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

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



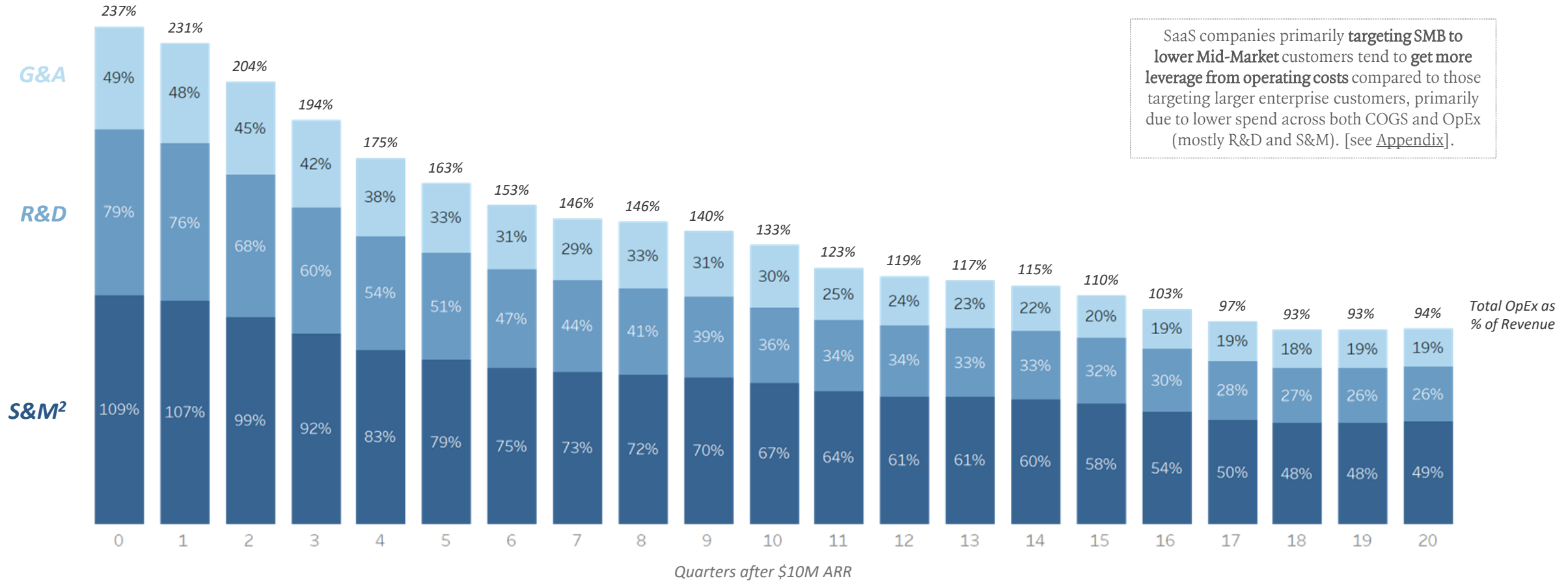
¹ Quarterly operating and financial data from the companies included

Spend Profile | OpEx vs. Revenue

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

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

OpEx as a % of Revenue by Type¹
Rolling Average by Quarters after \$10M ARR Threshold



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

N-size 40 42 39 39 40 40 41 40 44 45 47 46 46 46 40 40 34 34 31 30 27

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

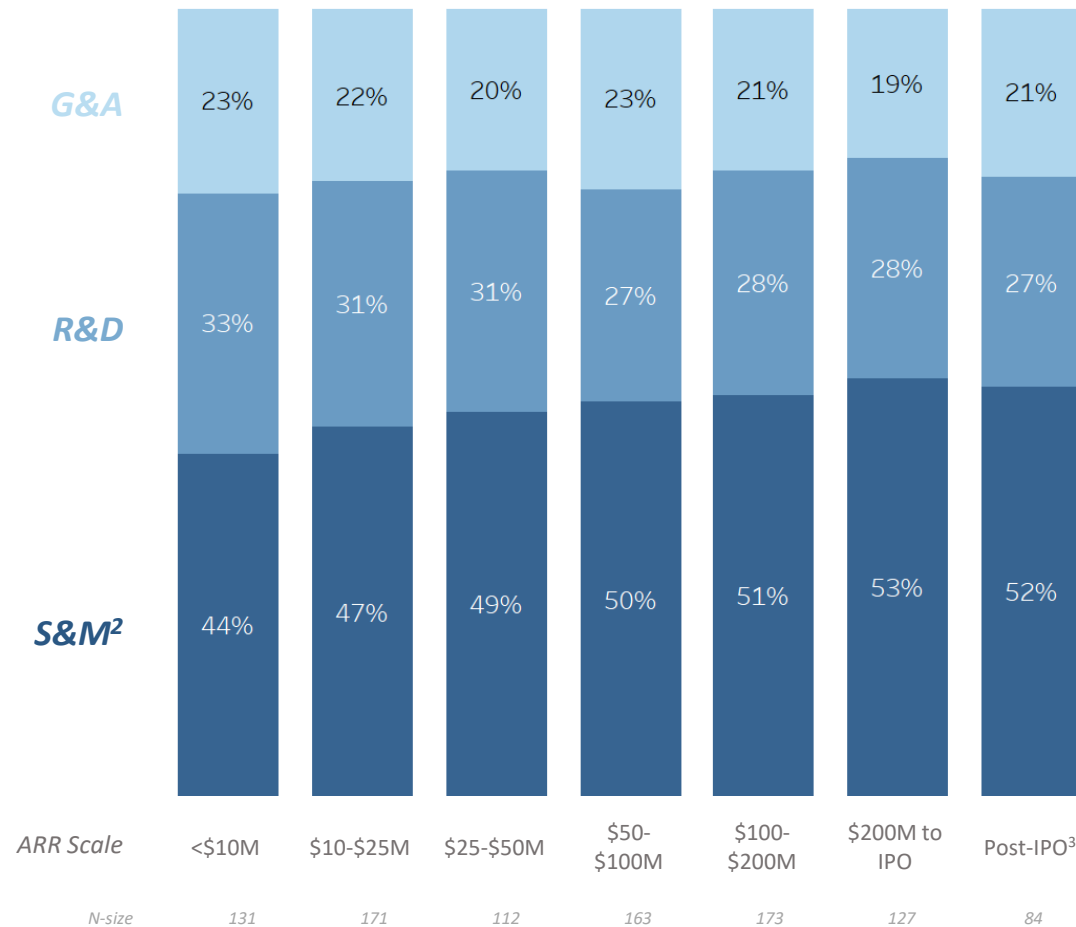
Spend Profile | Operational Expenses

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

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

OpEx Distribution¹

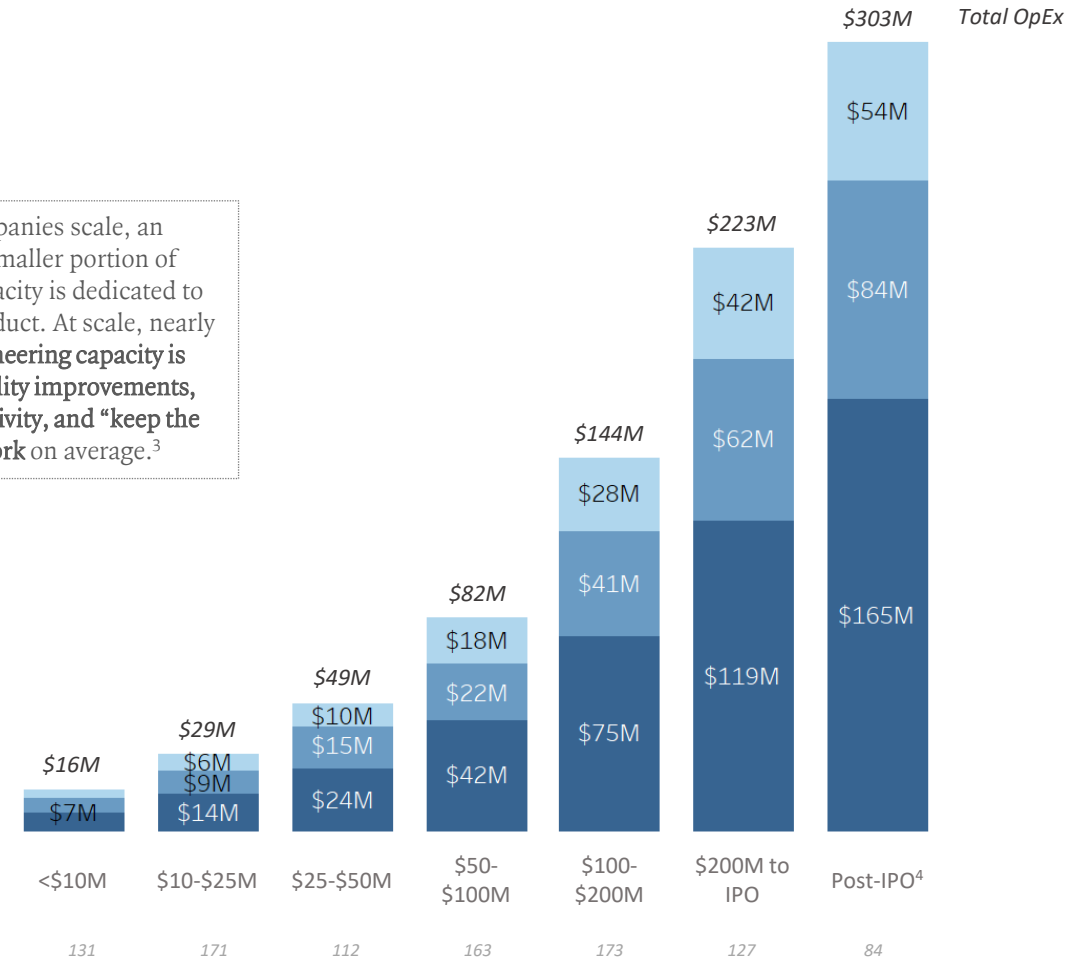
Average % of OpEx by Type and ARR Scale



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

Annualized OpEx \$¹

Average OpEx by Type and ARR Scale



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

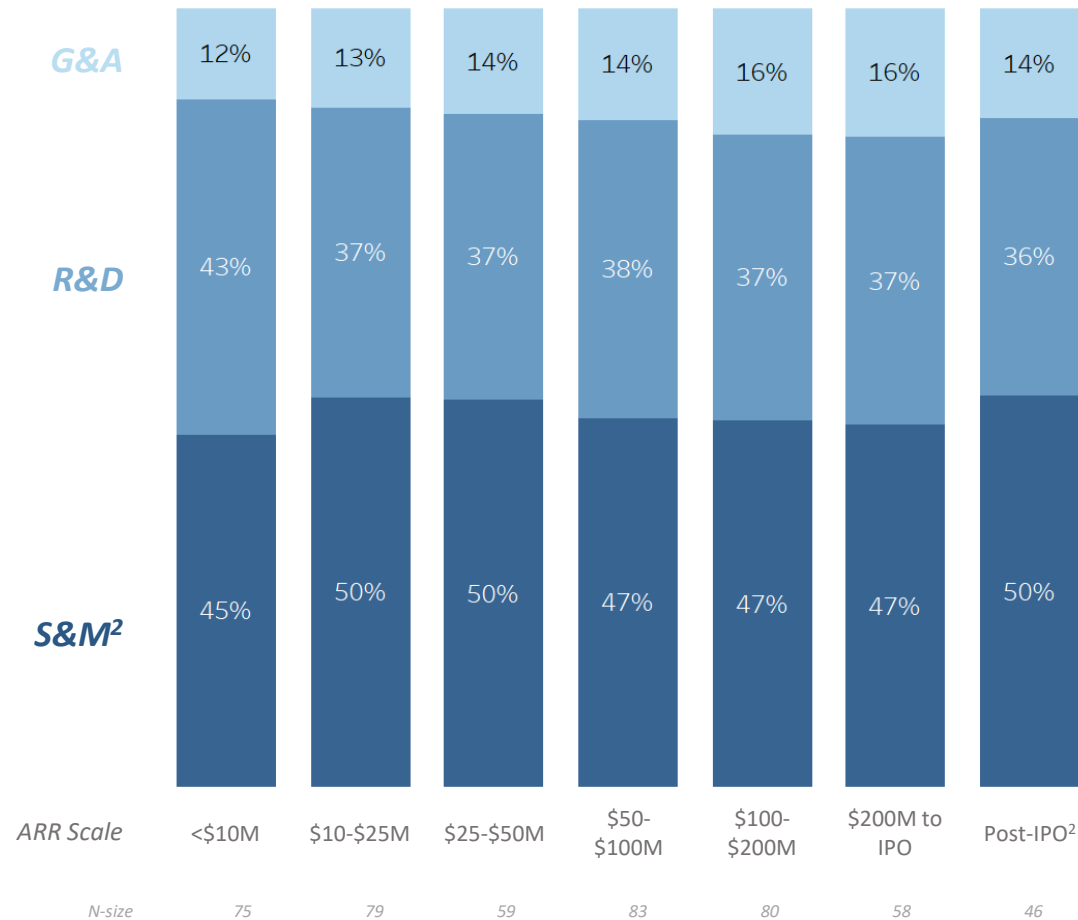
Spend Profile | Headcount Distribution

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

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

FTE Distribution¹

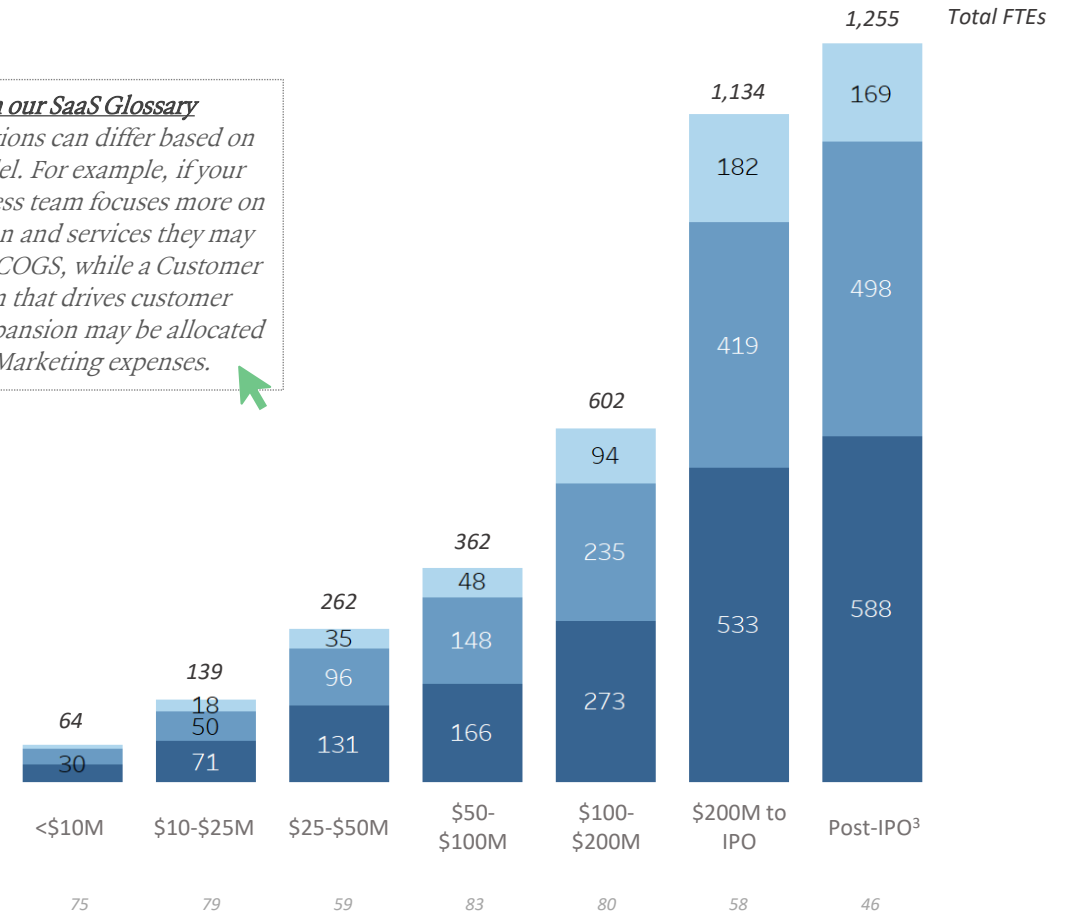
Average % of Headcount by Type and ARR Scale



Number of FTEs¹

Average Headcount by Type and ARR Scale

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



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

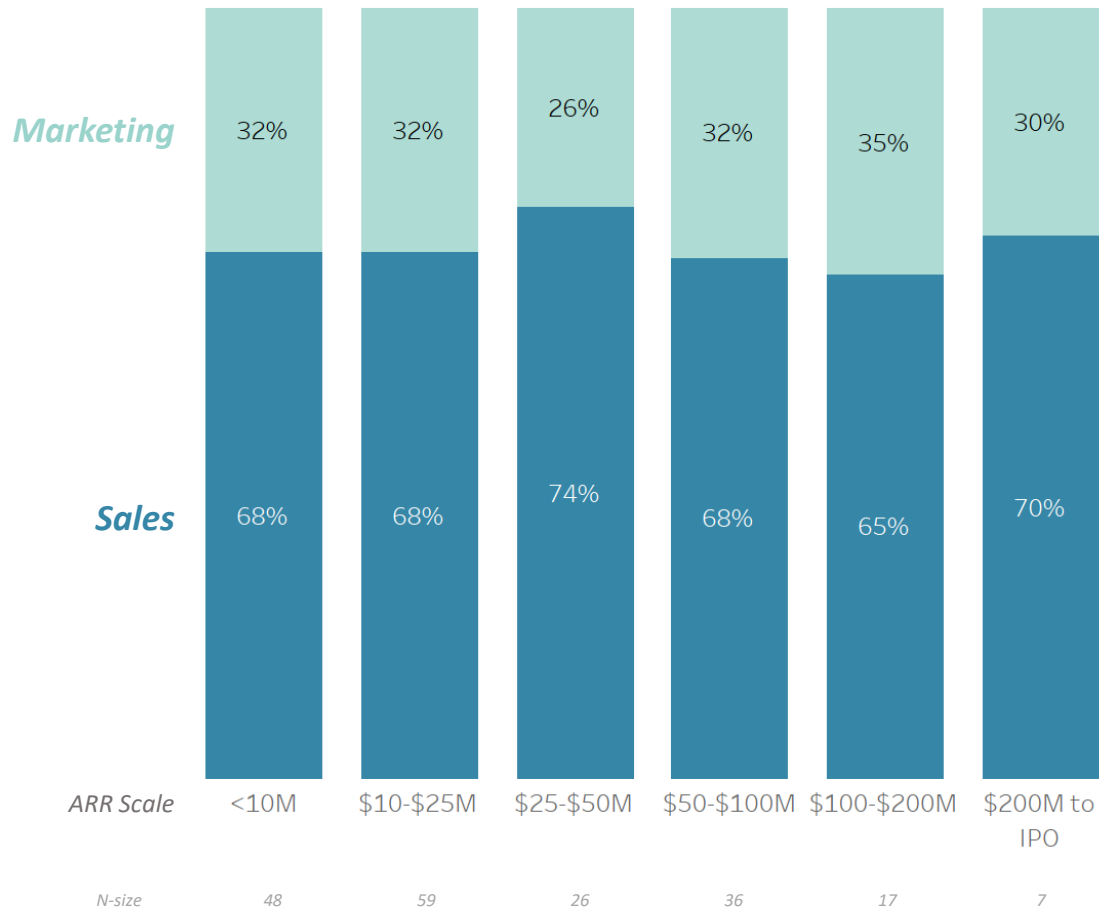
Spend Profile | GTM Spend and Headcount Distribution

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

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

S&M OpEx Distribution¹

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

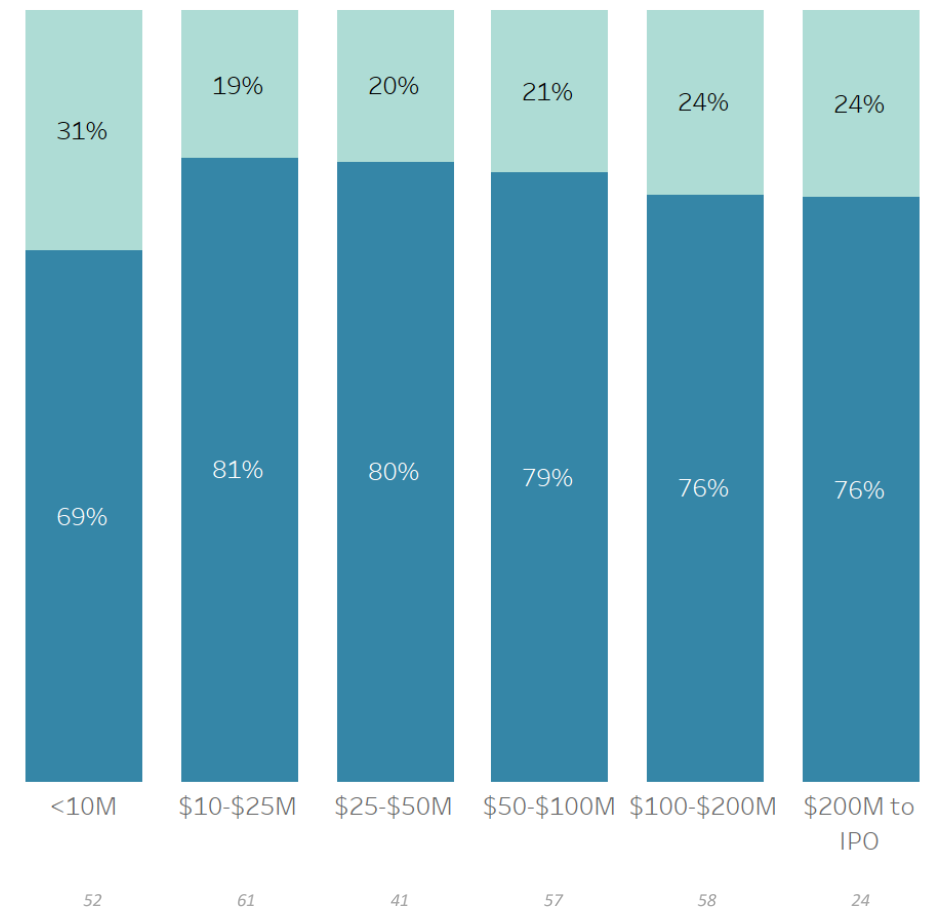


Product-led growth companies have a much higher proportion of Marketing spend [see next page].

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

S&M Headcount Distribution¹

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



¹ Quarterly operating and financial data from the companies included

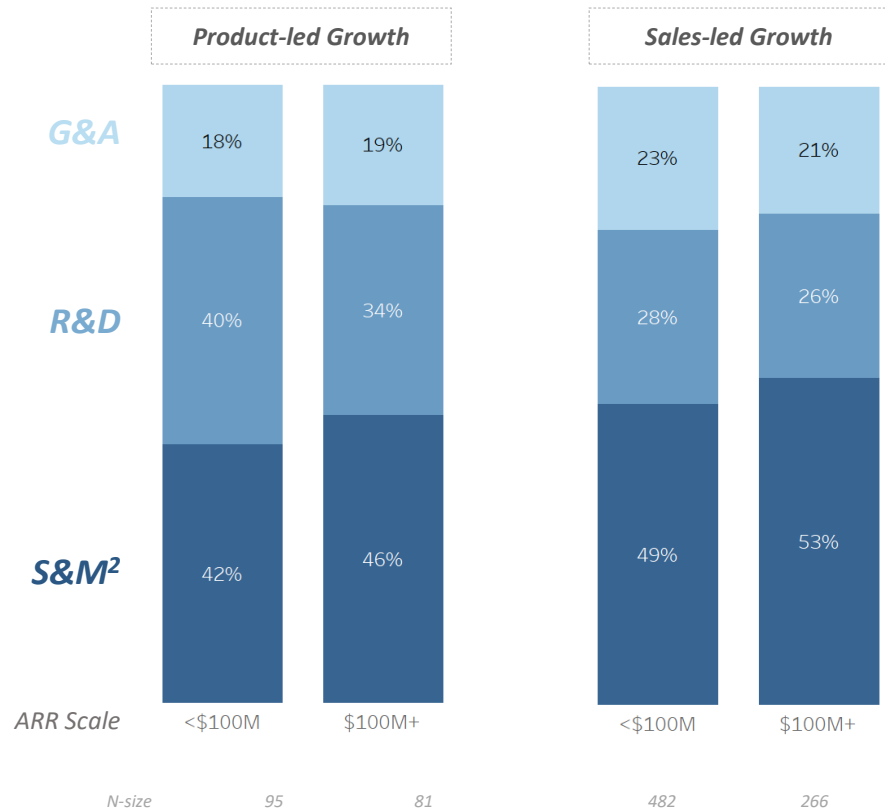
Spend Profile | Product-led Growth Trends

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

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

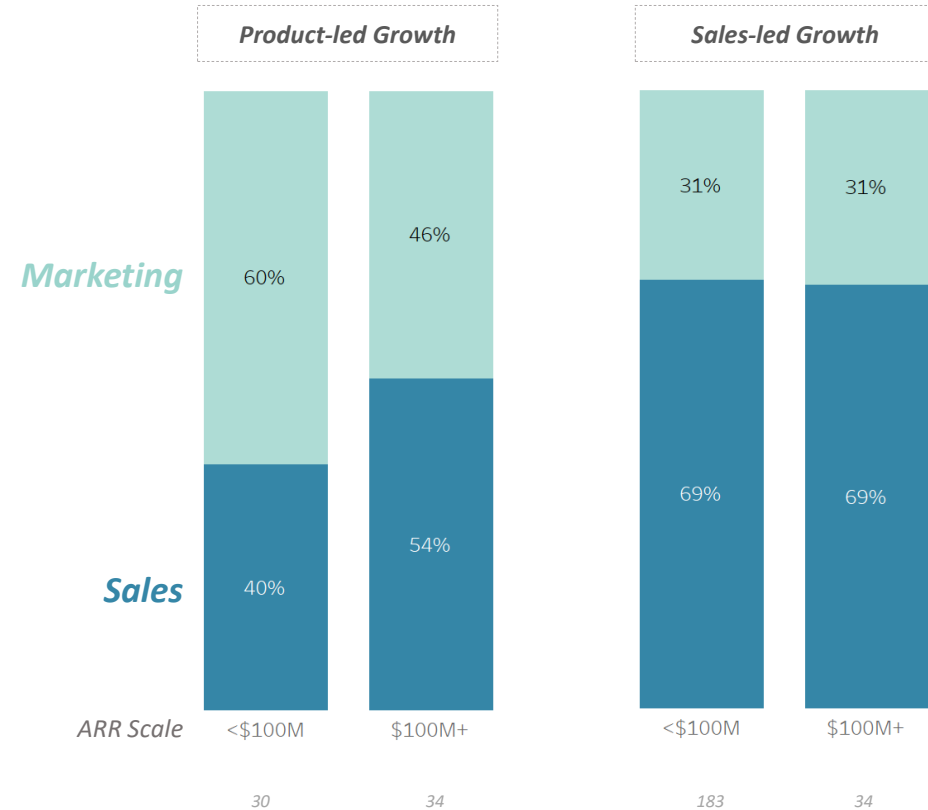
OpEx Distribution¹
% Contribution by Type and ARR Scale

By Primary Growth Motion



GTM OpEx Distribution¹
% Contribution by Type and ARR Scale

By Primary Growth Motion



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

Spend Profile | Cash Balance & Runway

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

Top Performance

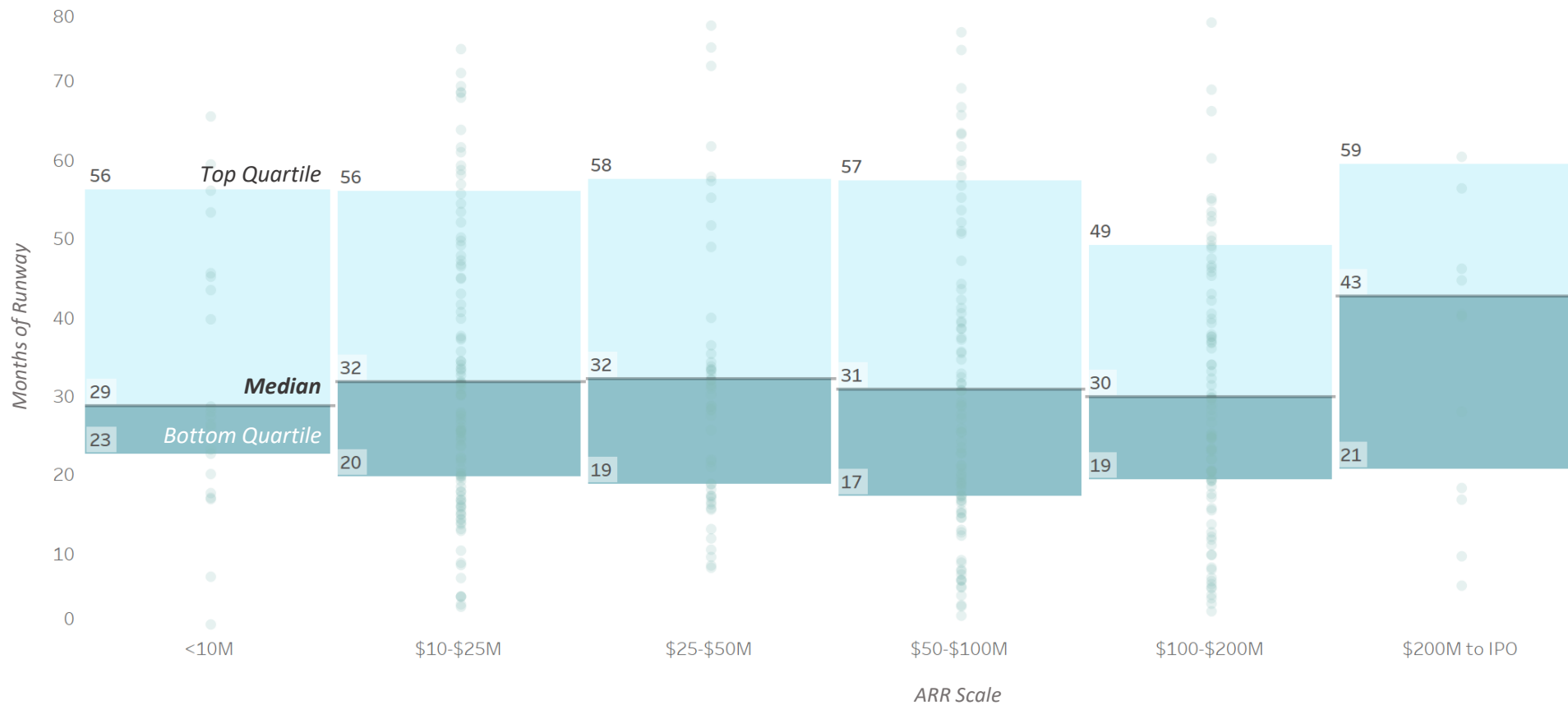
Scaling to \$50M

Pre- and Post-IPO

Metric to Watch

Months of Runway¹

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



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

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

4

Appendix

Supplemental Materials



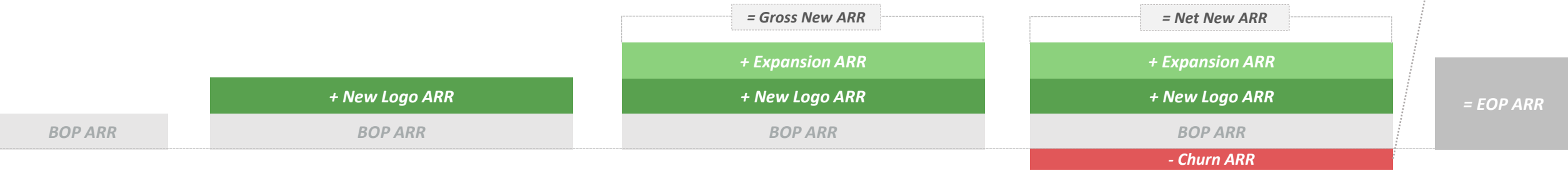
Topline Health | Drivers of ARR Growth – The ARR Funnel

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

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

Annualized ARR Funnel by ARR Scale¹
Average New Logo, Expansion, and Churn ARR

Churn ARR is typically composed of logo churn + downsell.



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

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

Growth Efficiency | Spend vs. Revenue by Customer Segment

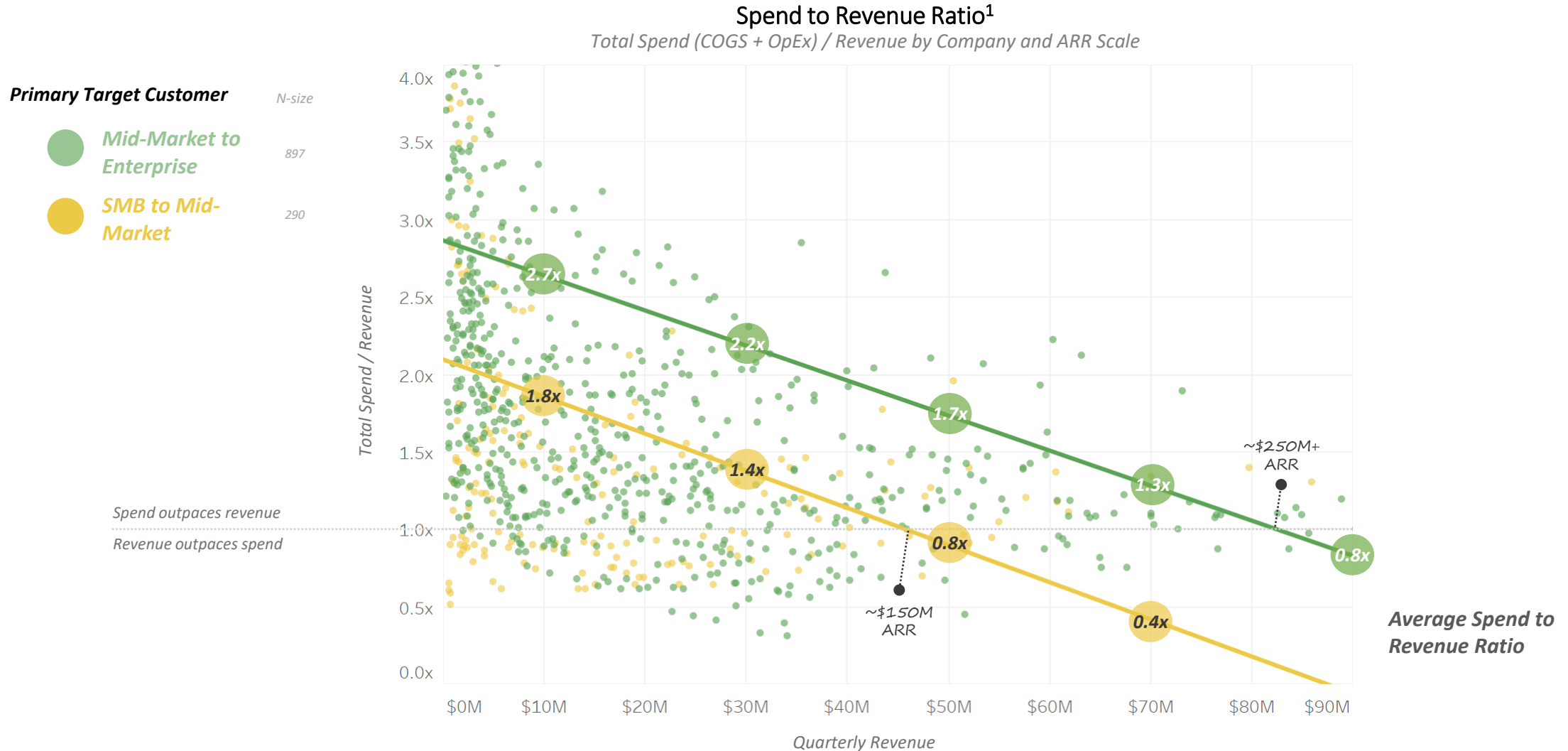
SaaS companies targeting SMB to mid-market customers tend to get more leverage from operating costs due to lower spend across both COGS and OpEx. Revenue begins to outpace spend for these companies around \$150M ARR versus \$250M+ ARR for those targeting enterprise customers.

Top Performance

Scaling to \$50M

Pre- and Post-IPO

Metric to Watch



¹ Quarterly operating and financial data from the companies included

ABOUT

ICONIQ | Growth

ICONIQ

Growth

Analytics & Insights

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



Christine Edmonds

Head of Portfolio Analytics



Claire Davis

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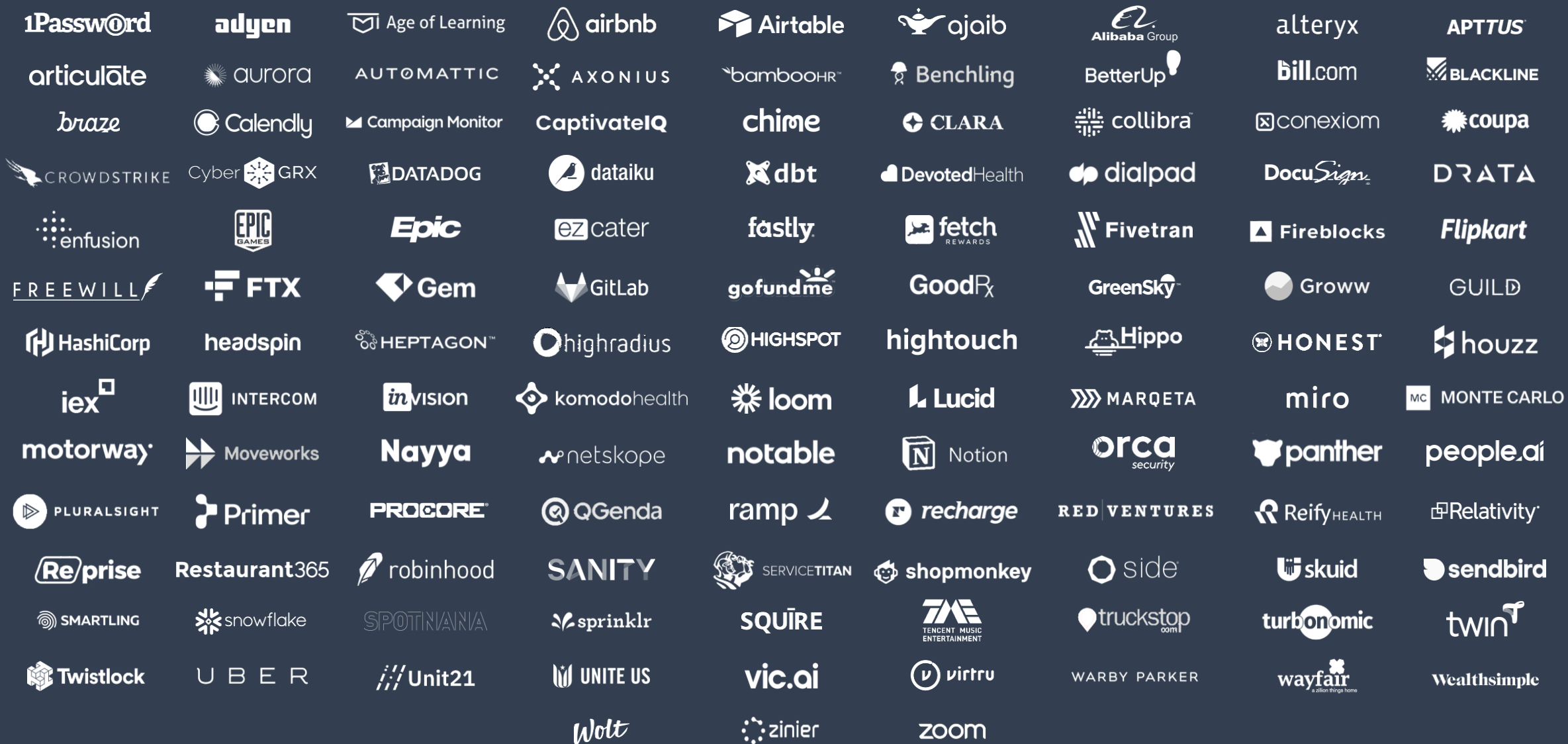


Vivian Guo

Portfolio Analytics

**WE PARTNER WITH VISIONARIES
DEFINING THE FUTURE OF THEIR INDUSTRIES
TO TRANSFORM THE WORLD**

A PORTFOLIO OF CATEGORY LEADERS





ICONIQ

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Dedicated team with strong investing
and operating experience

OUR VALUES
Teamwork | Excellence | Integrity

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