ICONIQ | Growth

The Rise of Vertical SaaS

Topline Growth and Operational Efficiency

August 2023

DISCLOSURE

1
Introduction

About the
Research

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

In addition to our core study, we are also excited to introduce three brand new companion reports this year that focus on niche areas of the SaaS ecosystem

- The Rise of Vertical SaaS
- Product-Led Growth in 2023
- Scaling from $0 to $50M

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

Focus of this report

Companion Reports

- Vertical SaaS
- Product-Led Growth
- Early-Stage

Tools & Reference Materials

- Board Reporting Template
- The SaaS Glossary
- Interactive Dashboard *Portfolio Only*

Scorecard Overviews

- The Enterprise Five
- The Resiliency Rubric

The Authors

ICONIQ Growth

Analytics & Insights

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

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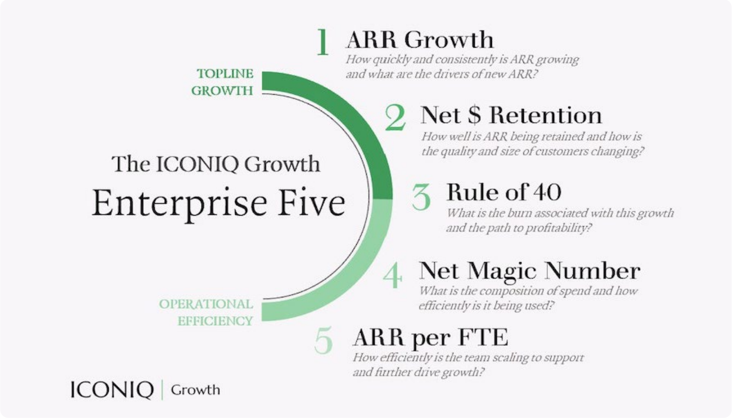


Table of Contents

Companies Included

This analysis is a companion report to our Topline Growth & Efficiency research which 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.[1]

Specific pages in this study related to *Vertical SaaS* include data from 22 ICONIQ Growth vertical SaaS companies shown here.

ICONIQ Growth Portfolio Companies[3]

Private

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

Public or Acquired[2]

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

Select Public Companies[1]

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

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

METHODOLOGY

Overview & Data Sources[1]

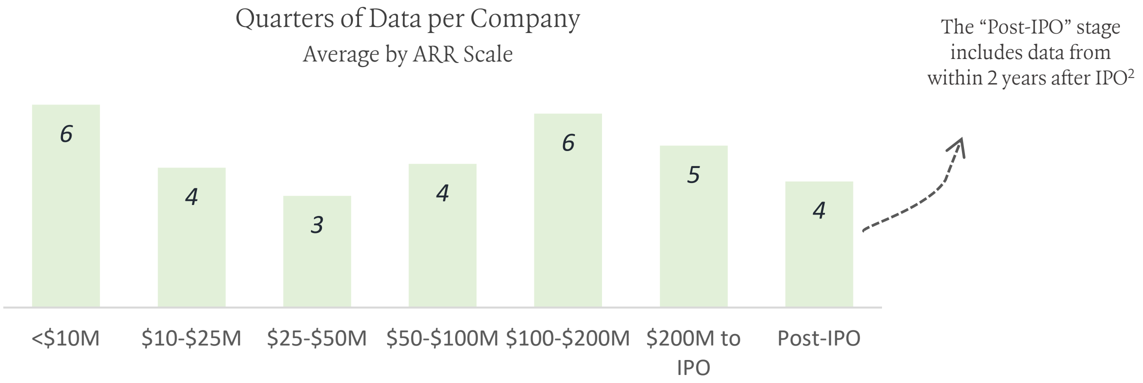
This analysis summarizes quarterly operating and financial data from the included SaaS companies. All views are aggregated or anonymized to protect the data privacy of individual companies.

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.

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)*

1 The conclusions of this study represent the views of the ICONIQ Growth Portfolio Analytics team and are not intended to serve as an analysis of the value, viability or health of any individual company or group of companies, and should not be used to make any decision about whether to invest in any company or group of companies, including through a private fund
2 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

2 Executive Summary

Benchmarking SaaS Performance in 2023

About This Year's Report[1]

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.

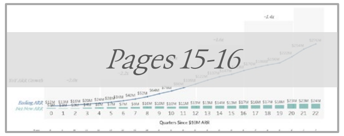
We recognize, however, that **today's reality means targets are much harder to achieve than in previous years**. Based on how 1H 2023 has trended, we expect software businesses will continue to face challenges this year. In the following pages, we have provided commentary on the nuances we expect to 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.

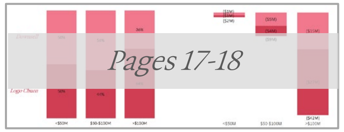
1 The New Era of Efficient Growth, ICONIQ Growth's 2023 Topline Growth and Operational Efficiency Report

Executive Summary

Drivers of Growth

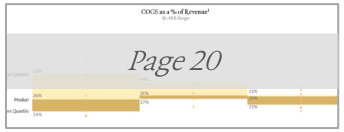
- Vertical SaaS companies with top performance in ARR growth **grow 200%+ YoY for the first three years after reaching $10M ARR**
- **New logos are the primary driver of ARR growth until vertical SaaS companies reach ~$50M ARR**, at which point expansion starts to contribute ~50% of gross new ARR
    - **New logo growth makes up a larger proportion of gross new ARR in vertical SaaS companies** than horizontal SaaS companies
- **Downsell becomes the primary driver of churn after vertical SaaS companies reach ~$50M ARR**
- **Top quartile vertical SaaS companies tend to experience a decrease in net dollar retention as they scale**, with NDR stabilizing around ~120% after reaching $100M ARR

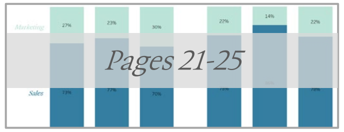


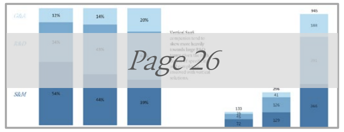


Efficiency

- Gross margins for vertical SaaS companies, especially for segments like HCIT or companies with a payments model, tend to be lower with **median margins in the ~70% range**
- Vertical SaaS companies tend to have **lower S&M spend and therefore higher sales efficiency** than horizontal SaaS companies given the more targeted (and often cost effective) marketing approach with a top quartile net magic number of **1.7x-2.0x** for <$100M ARR vertical SaaS companies
    - **Marketing generally comprises ~25-30% of total GTM** spend and only **~15-25% of total GTM headcount** for vertical SaaS companies
    - **Buyers also tend to have higher lifetime values,** as vertical SaaS products often become highly indispensable and true platforms for customers
- On the other hand, vertical SaaS companies usually require **greater investment in R&D (across both $ spend and total headcount)** due to the high degree of specificity and complexity involved with vertical solutions
    - Over time as vertical SaaS companies scale, **revenue generally starts to outpace total operating spend once companies reach ~$100M in ARR**
    - It usually **takes longer for top quartile vertical SaaS companies to achieve profitability** than top quartile horizonal SaaS companies of similar scale







- >10% lower than all SaaS companies
- <10% lower than all SaaS companies
- Consistent with all SaaS companies
- <10% greater than all SaaS companies
- >10% greater than all SaaS companies

THE ICONIQ GROWTH

Enterprise Five

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

Vertical SaaS

Median & Top Quartile Performance by ARR Scale[1]

Median Top Quartile

	<$50M	$50-$100M	>$100M
1 **YoY ARR Growth** *(EOP ARR – prior year EOP ARR) /prior year EOP ARR*	115% 175%	80% 115%	35% 60%
2 **Net $ Retention** *(BOP ARR + expansion ARR - gross churn ARR) / BOP ARR*	105% 125%	115% 150%	110% 115%
3 **Rule of 40** *YoY ARR growth + FCF margin[2]*	*Less Relevant*	40% 115%	25% 35%
4 **Net Magic Number** *Current Q net new ARR / prior Q S&M OpEx[3]*	1.1x 1.8x	1.4x 1.9x	0.8x 1.3x
5 **ARR per FTE** *EOP ARR / EOP FTEs*	$100K $140K	$185K $215K	$205K $230K

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[1]. Arrows indicate Vertical SaaS Benchmarks relative to the entire Topline Growth and Operational Efficiency dataset – more detail can be found in our Topline Growth & Operational Efficiency report.

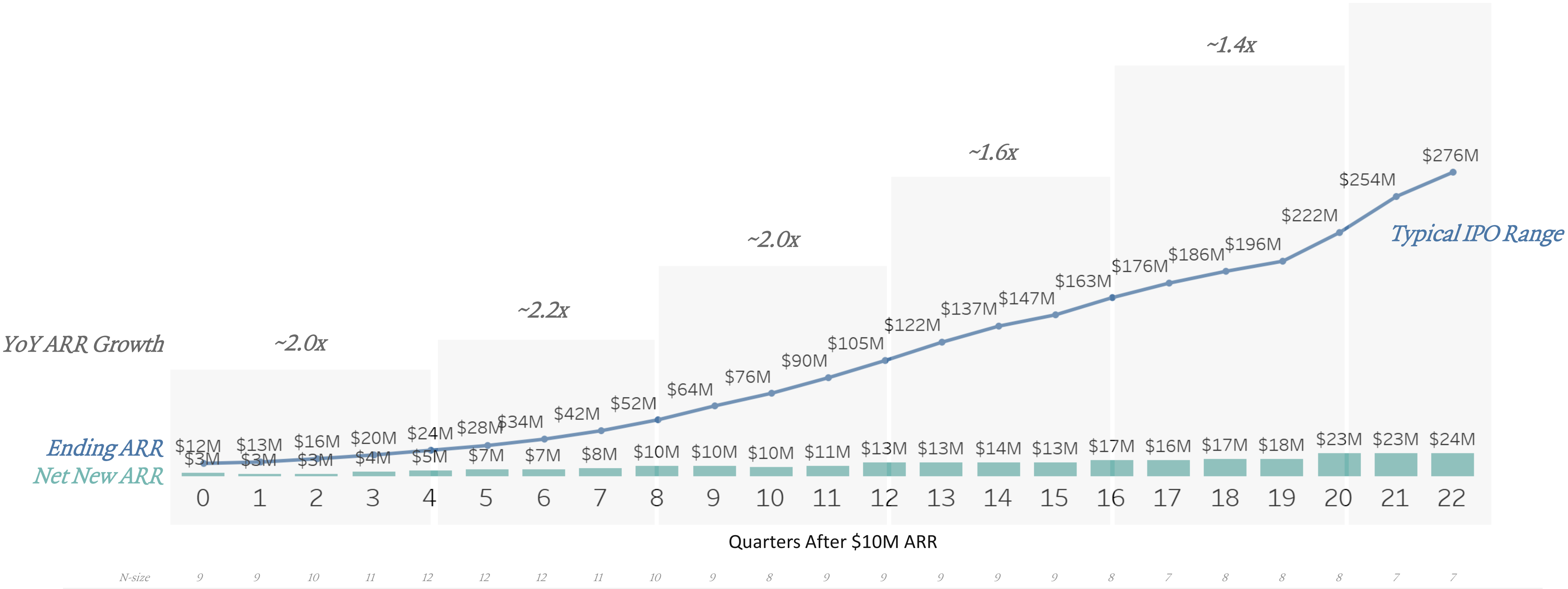
1 Quarterly operating and financial data from the vertical SaaS companies included (2012-2023); 2 Alternative Rule of 40 calculations include YoY Revenue Growth and EBITDA Margin
3 Quarter of S&M OpEx utilized in magic number calculations should depend on your company's sales cycle

3
Drivers of Growth

Top quartile vertical SaaS companies grow 200%+ YoY for the first three years after reaching $10M ARR

Top Quartile ARR Growth from $10M to IPO[1]

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



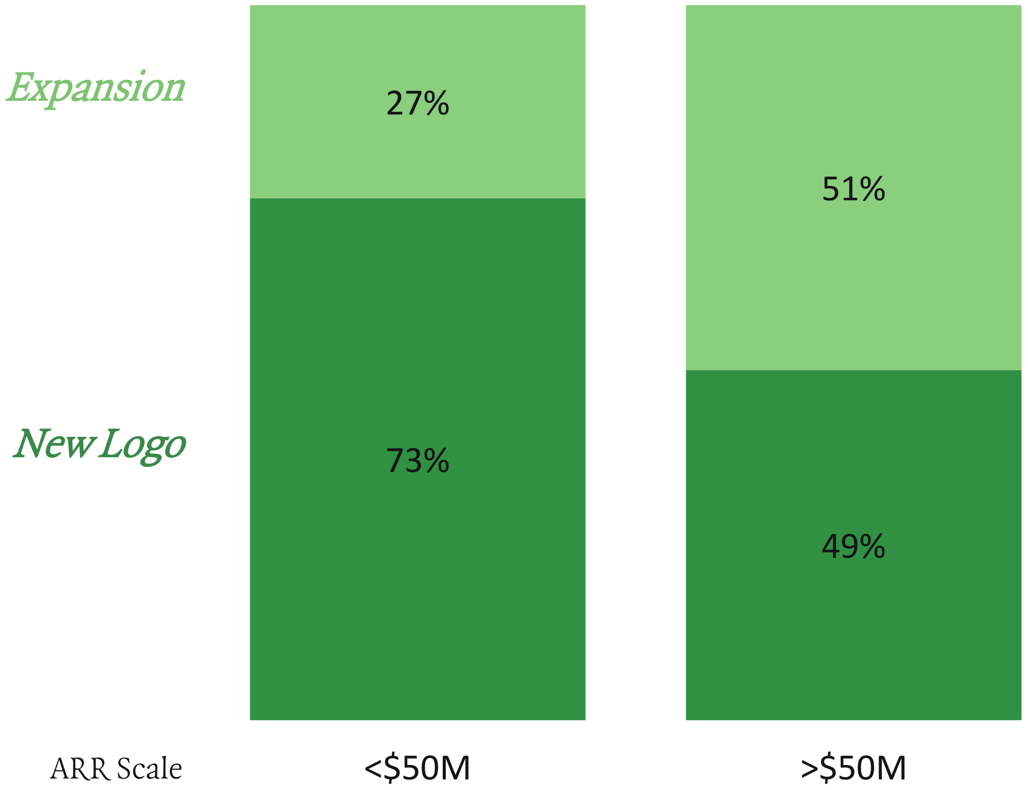
1 Quarterly operating and financial data from the vertical SaaS companies included

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

Average Gross New ARR Distribution[1]

Average % of Gross New ARR by Type and ARR Scale

Vertical SaaS

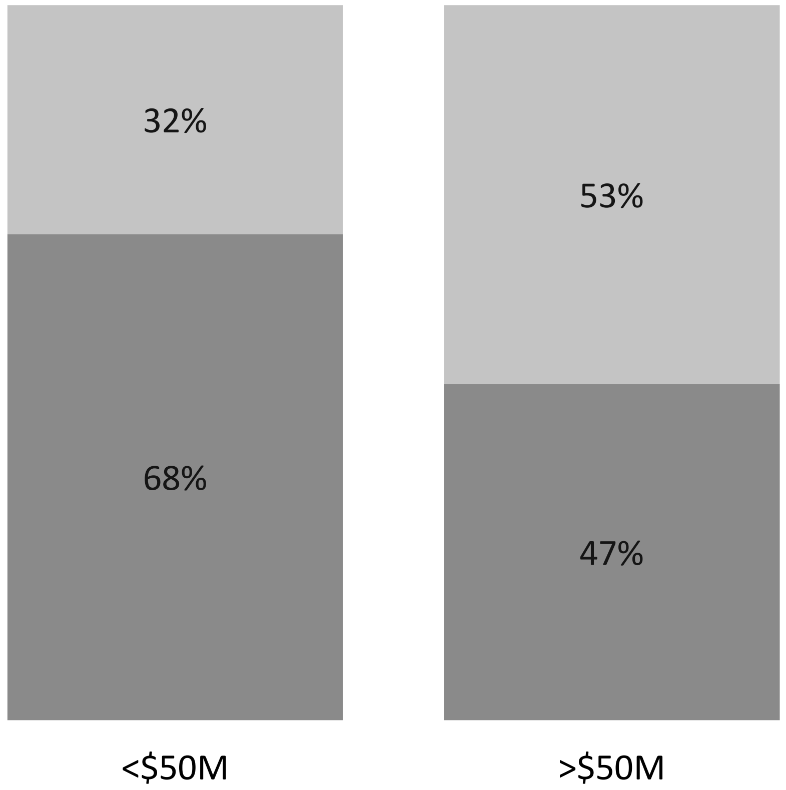


New logo growth makes up a larger proportion of gross new ARR in vertical SaaS companies than horizontal SaaS companies

Average Gross New ARR Distribution[1]

Average % of Gross New ARR by Type and ARR Scale

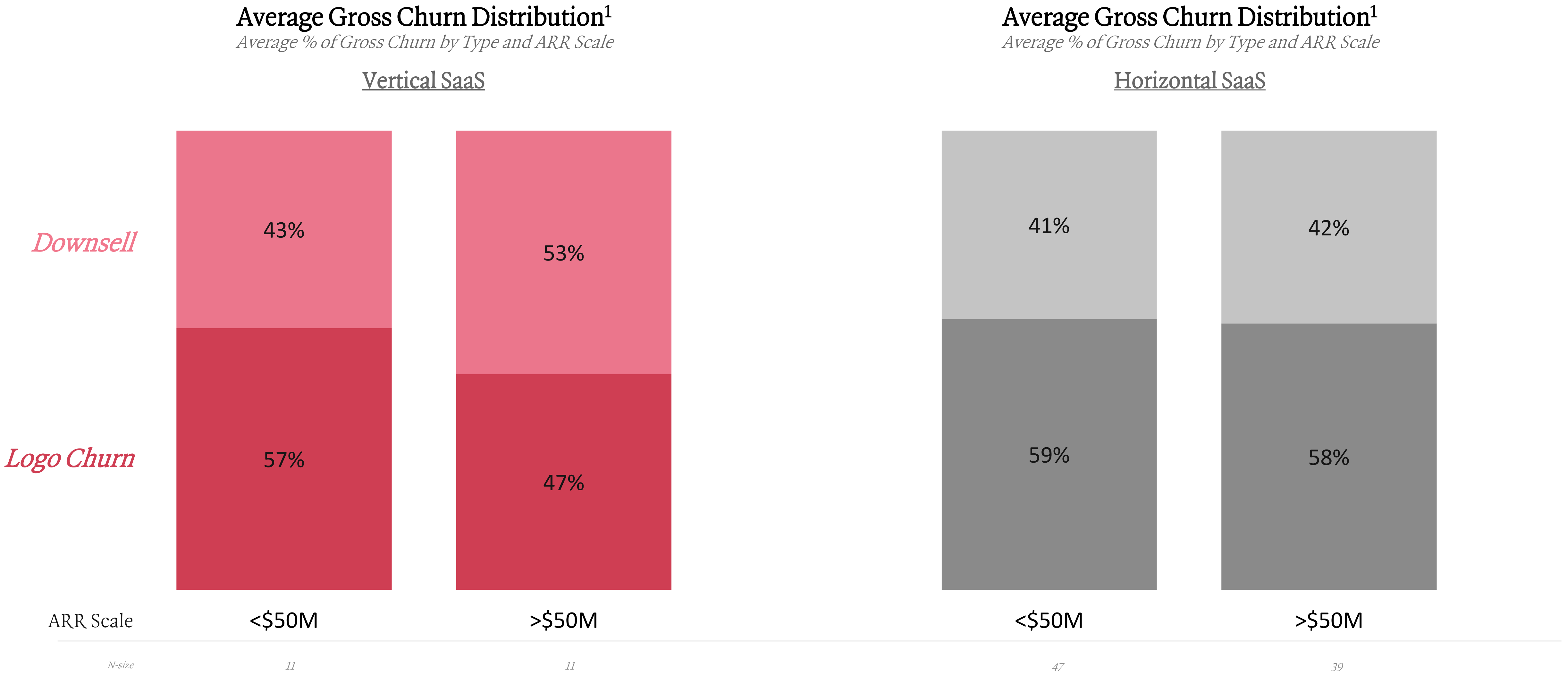
Horizontal SaaS



N-size	12	11	46	38

1 Quarterly operating and financial data from the vertical SaaS companies included

In contrast to horizontal SaaS companies, vertical SaaS companies typically see downsell as the primary driver of churn after reaching $50M ARR



1 Quarterly operating and financial data from the vertical SaaS companies included

Topline Health| ARR Retention by Pricing Model

There tends to be greater variation in NDR across vertical SaaS companies given the different types of business models; however, top quartile companies generally achieve 97%+ GDR and ~120-130% NDR given the strong product stickiness inherent in vertical SaaS

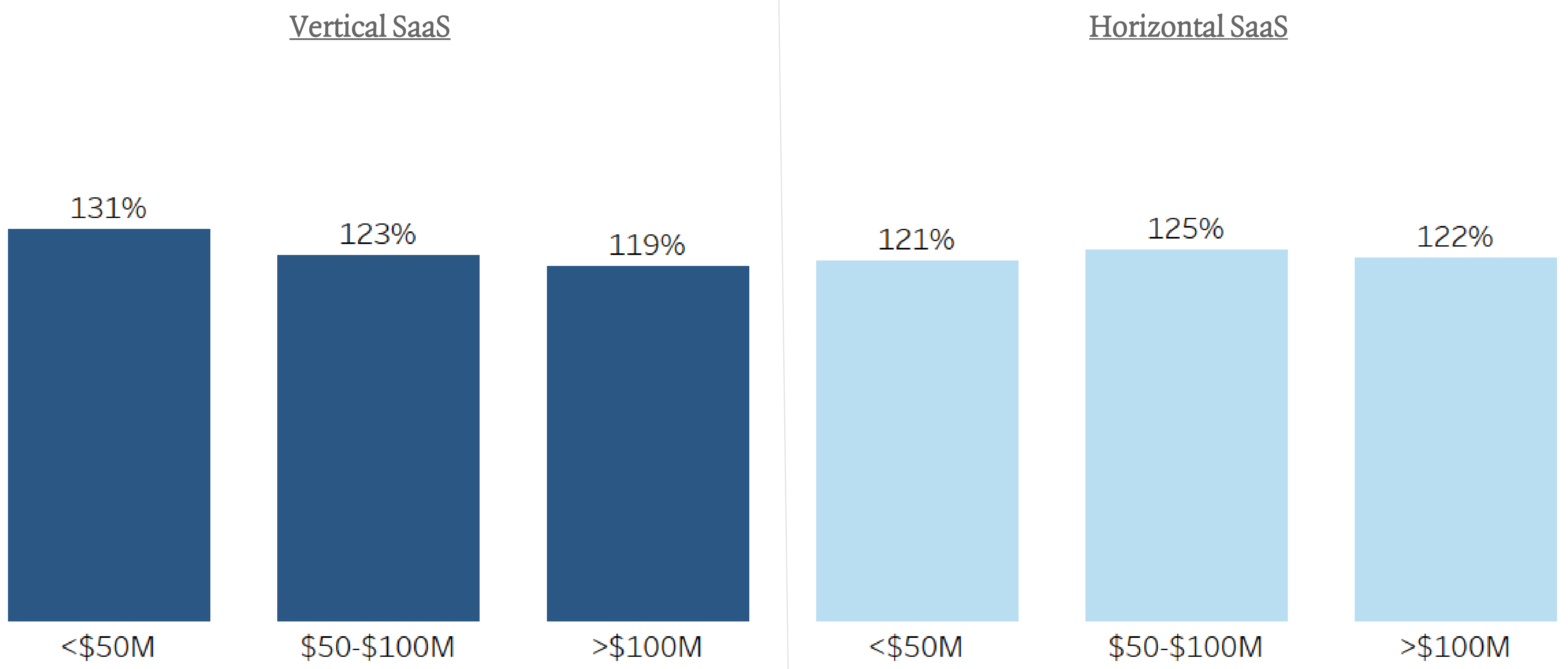
Top Quartile Net Dollar Retention[1]

Top Quartile Annualized Net ARR Retention by ARR Scale

Net Dollar Retention

Vertical SaaS businesses are typically sticky, leading to stronger gross dollar retention that horizontal SaaS companies

ARR Scale



	Vertical <$50M	Vertical $50-$100M	Vertical >$100M	Horizontal <$50M	Horizontal $50-$100M	Horizontal >$100M
Top Quartile Gross Dollar Retention	*100%*	*97%*	*97%*	*95%*	*94%*	*94%*
N-size	*11*	*7*	*9*	*37*	*32*	*34*

1 Quarterly operating and financial data from the vertical SaaS companies included

4
Efficiency Metrics

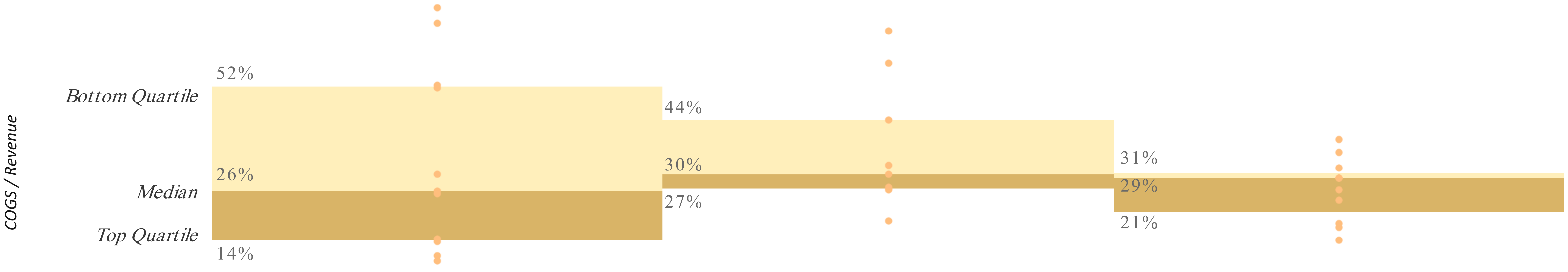
Unit Economics| COGS as a % of Revenue by Scale

Vertical SaaS companies typically have higher COGS than horizontal SaaS peers, leading to gross margins around ~70% on average

COGS as a % of Revenue[1]

Top, Median, and Bottom Quartile by ARR Scale; Vertical SaaS Companies

Gross margins for vertical SaaS companies (especially for segments like HCIT and businesses with a payments component) tend to be lower than traditional software, usually due to factors such as customer success / implementation costs, managed services and transaction costs.



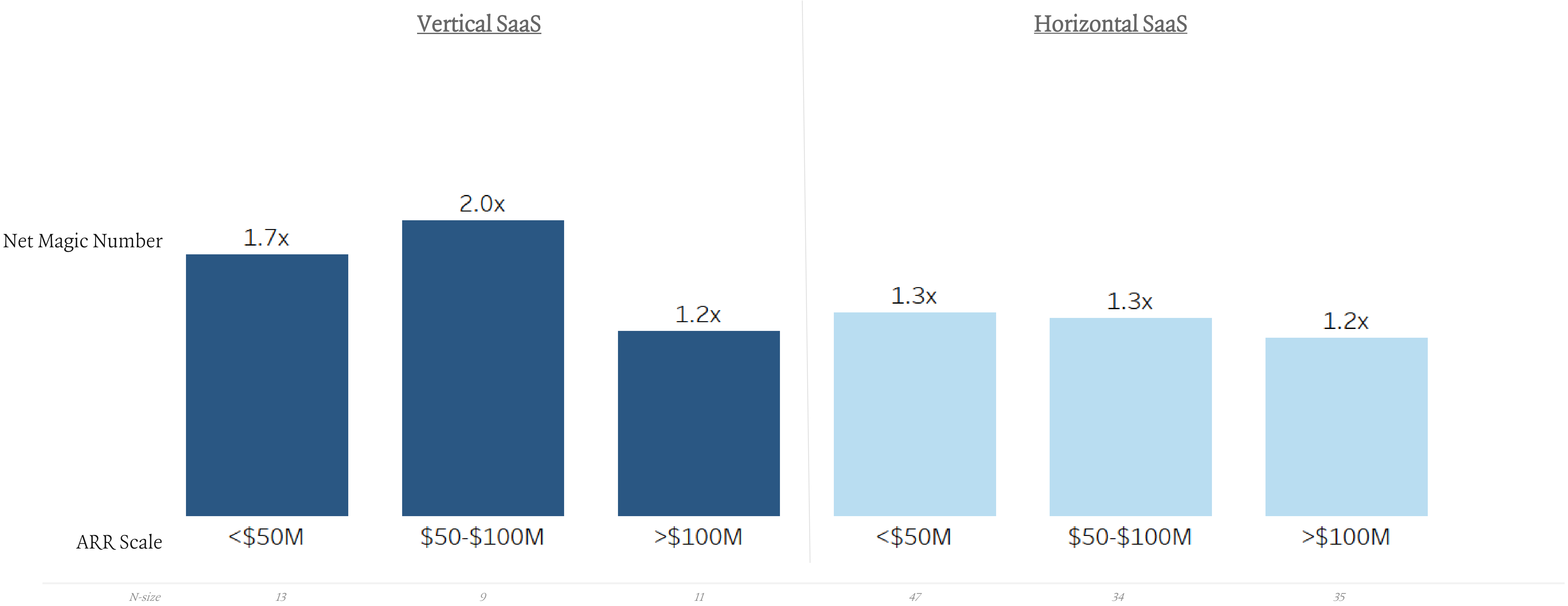
	<$50M	$50-$100M	>$100M
Top Quartile Gross Profit Margin	*86%*	*73%*	*79%*
Median Gross Profit Margin	*74%*	*70%*	*71%*
ARR Scale	<$50M	$50-$100M	>$100M
N-size	*13*	*9*	*11*

1 Quarterly operating and financial data from the vertical SaaS companies included

Vertical SaaS companies tend to have higher sales efficiency than horizontal SaaS companies with top quartile net magic number greater than 1.7x for <$100M ARR companies

Top Quartile Net Magic Number[1]

Net New ARR / Prior Quarter S&M OpEx[2] by ARR Scale

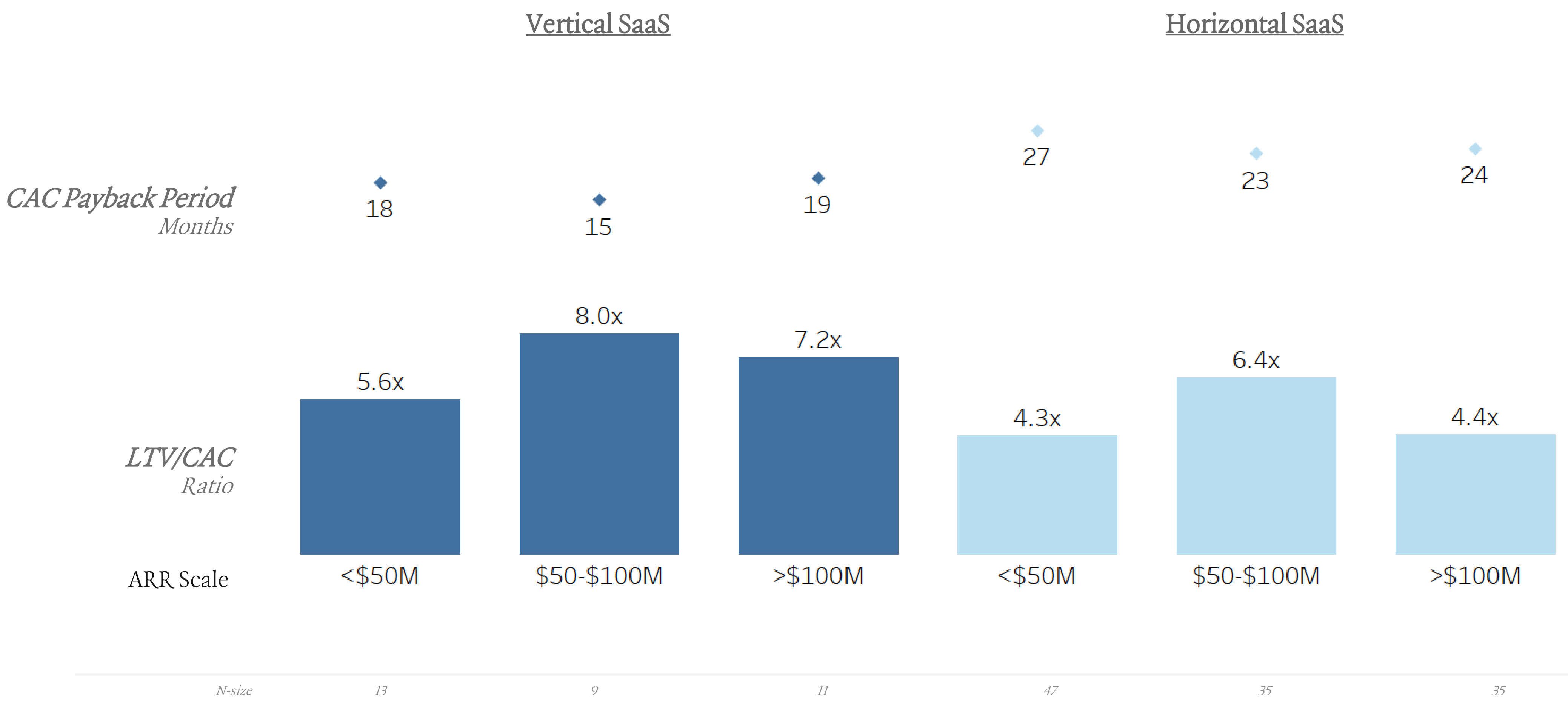


1 Quarterly operating and financial data from the vertical SaaS companies included
2 Quarter of S&M OpEx utilized in magic number calculations should depend on a given company's sales cycle

Vertical SaaS buyers also tend to have higher lifetime values, leading to a higher median LTV/CAC ratio and lower median CAC payback period compared to horizontal SaaS companies, regardless of scale

Median LTV/CAC and CAC Payback Period[1,2]

By ARR Scale



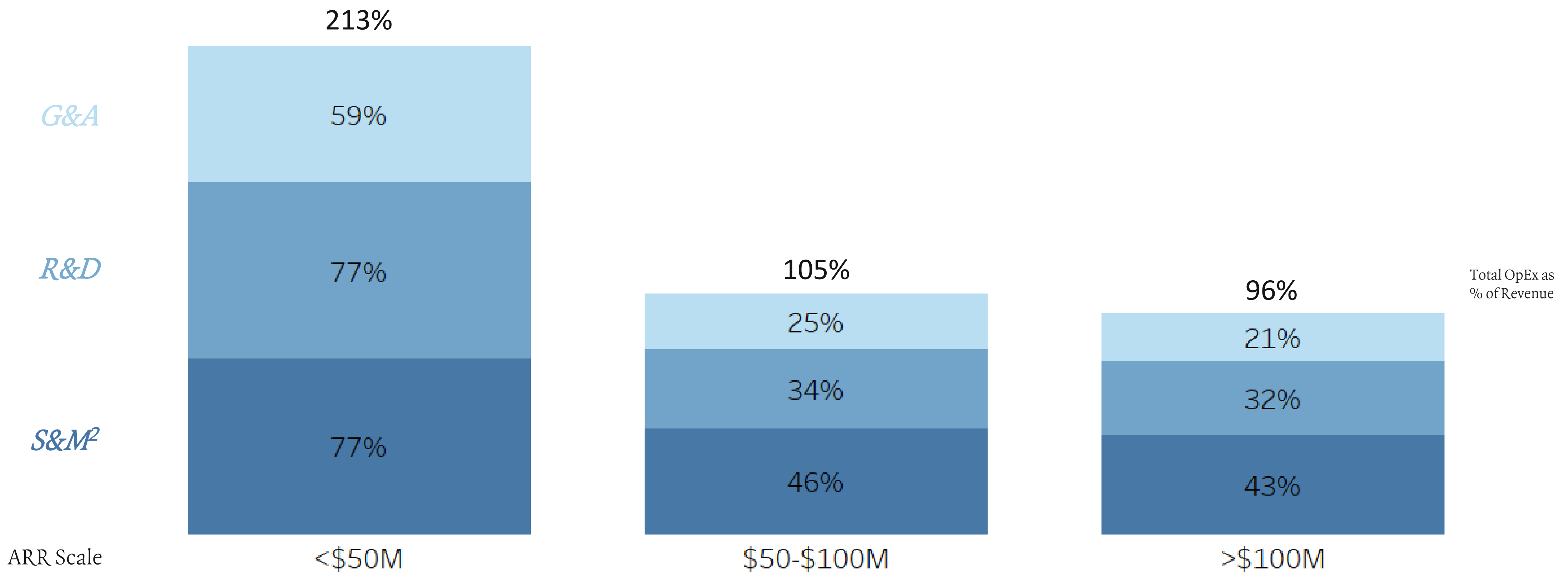
Vertical SaaS products are usually indispensable and become true platforms for their customers, leading to **low churn and higher customer lifetime values than those of horizontal SaaS companies**

1 Quarterly operating and financial data from the vertical SaaS companies included
2 LTV = Customer Lifetime Value; CAC = Customer Acquisition Cost; CAC Payback Period = CAC / (New MRR x Gross Margin)

Over time as vertical SaaS companies scale, revenue generally starts to outpace total operating spend once companies reach ~$100M in ARR

OpEx as a % of Revenue by Type[1]

Average by Type and ARR Scale; Vertical SaaS Companies



N-size 13 9 11

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

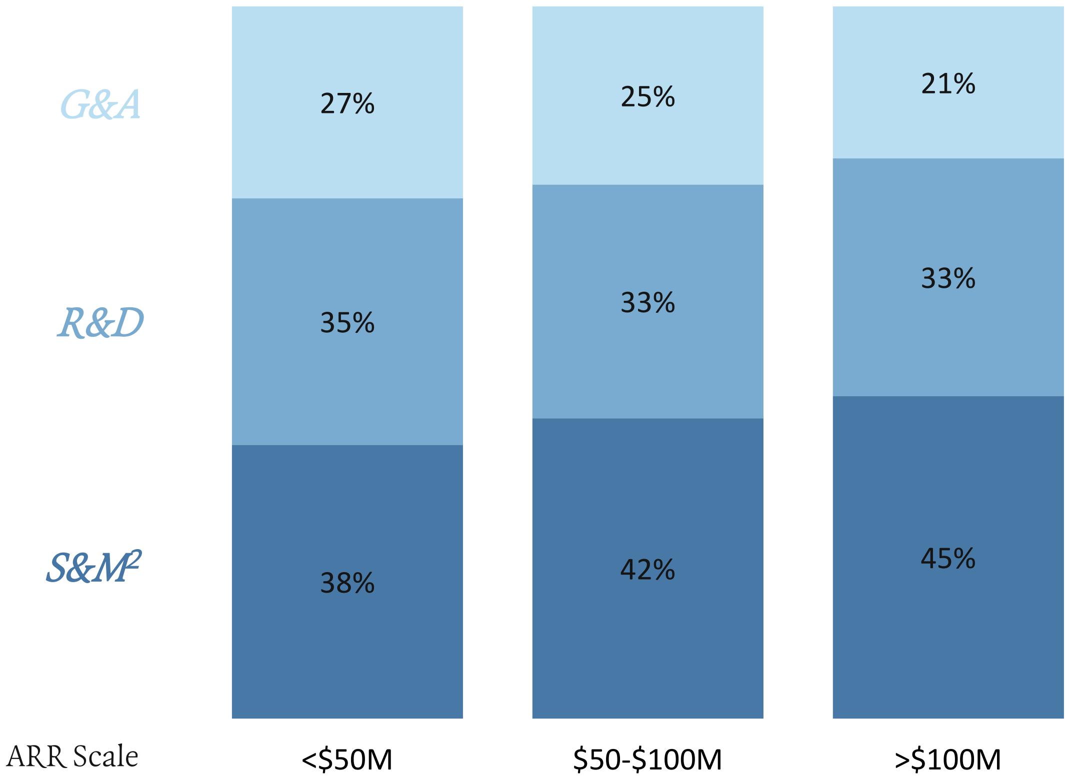
Cost Allocation| OpEx Distribution by Scale

Vertical SaaS companies usually tend to invest more in R&D, comprising around 33-35% of total spend, in comparison to horizontal SaaS companies

OpEx Distribution[1]

Average % of OpEx by Type and ARR Scale

Vertical SaaS



OpEx Distribution[1]

Average % of OpEx by Type and ARR Scale

Horizontal SaaS

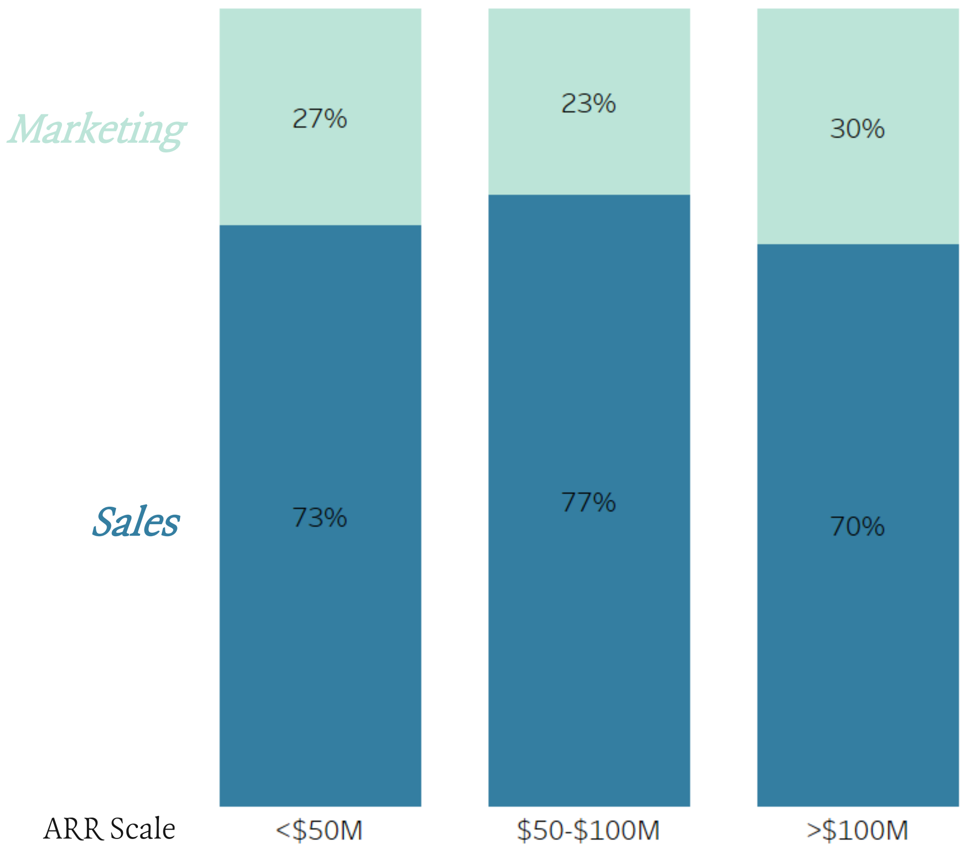
N-size	13	9	10	45	32	32

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

Within the sales and marketing function, marketing typically comprises ~23-30% of total GTM spend and only ~14-22% of total GTM headcount for vertical SaaS companies

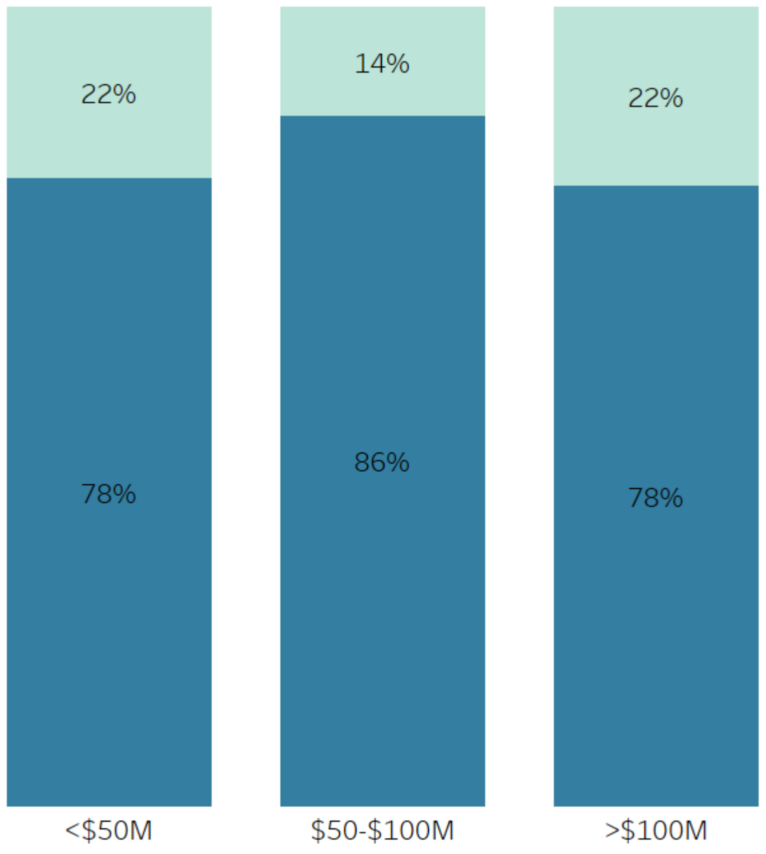
S&M OpEx Distribution[1]

Average % of S&M OpEx by Type and ARR Scale
Vertical SaaS Companies



S&M Headcount Distribution[1]

Average % of S&M Headcount by Type and ARR Scale
Vertical SaaS Companies



Marketing spend for vertical SaaS companies as a % of OpEx and total FTE is generally **lower than that of horizontal SaaS companies** *(more detail can be found in our [2023 Topline Growth & Efficiency report](#))*.

This is likely because in general **marketing can be more targeted and therefore cost effective when targeting a single vertical** vs. broad base awareness building

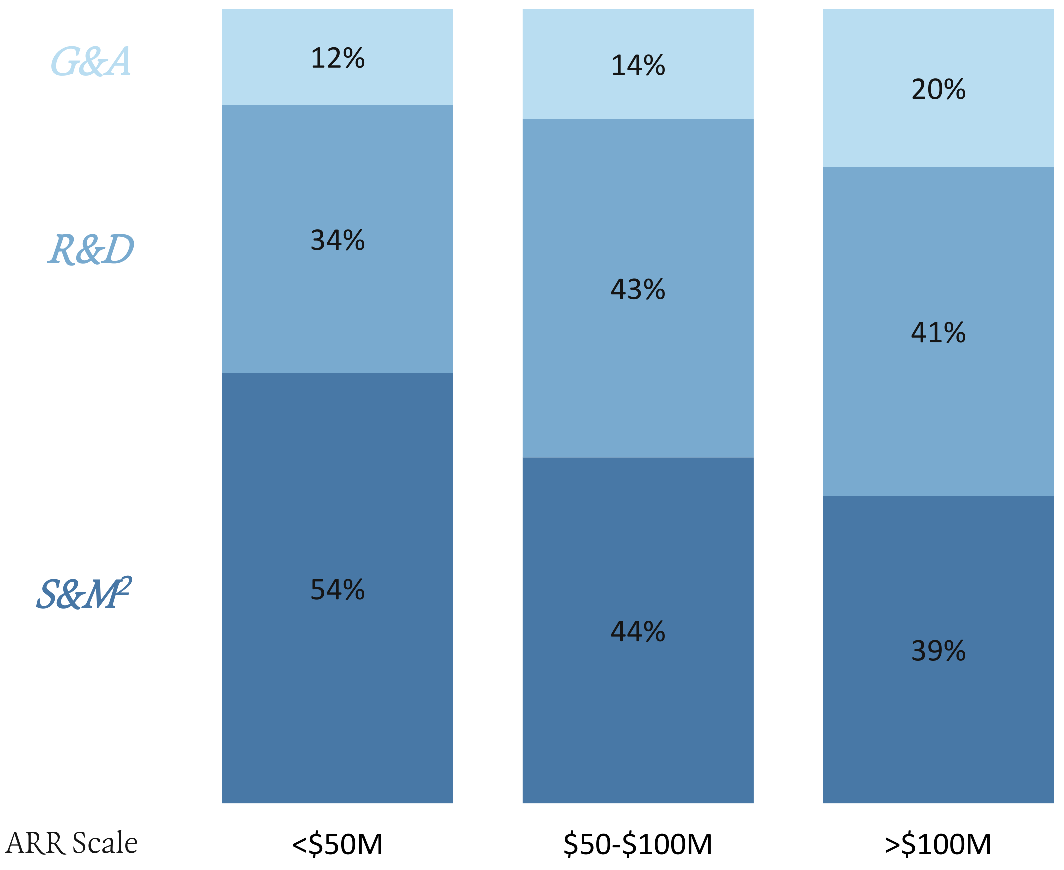
N-size	13	9	11	13	9	11

1 Quarterly operating and financial data from the vertical SaaS companies included

Vertical SaaS companies also tend to have a bigger R&D team, especially as they scale to IPO

FTE Distribution[1]

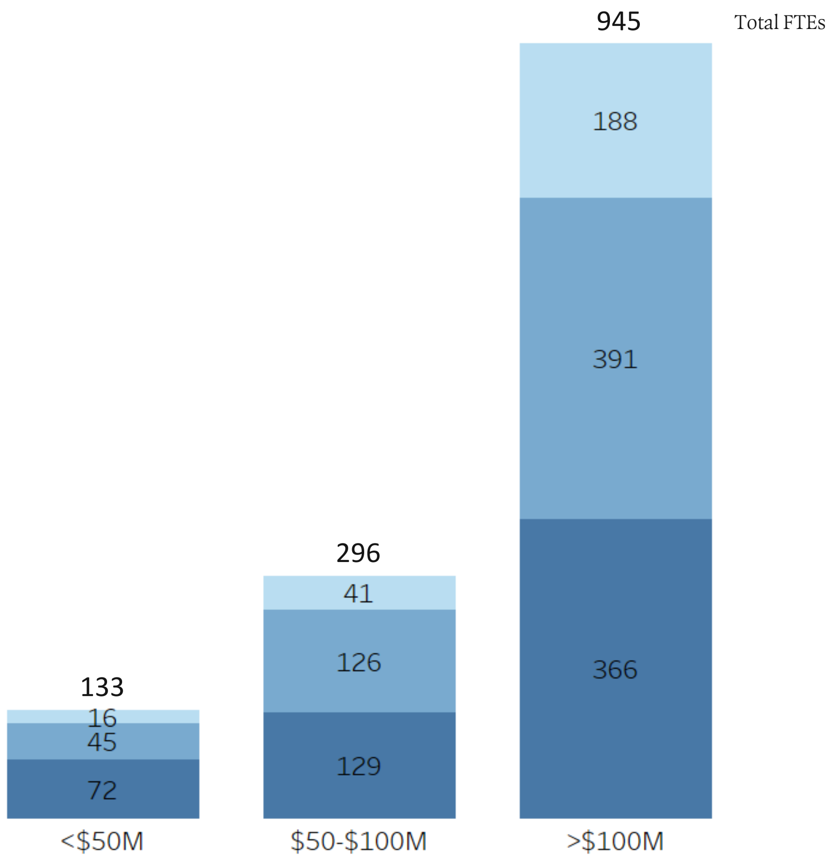
Average % of Headcount by Type and ARR Scale; Vertical SaaS Companies



Vertical SaaS companies tend to **skew more heavily towards large R&D teams** given the high degree of specificity and complexity involved with vertical solutions.

Number of FTEs[1]

Average Headcount by Type and ARR Scale; Vertical SaaS Companies



N-size	13	11	11	13	11	11

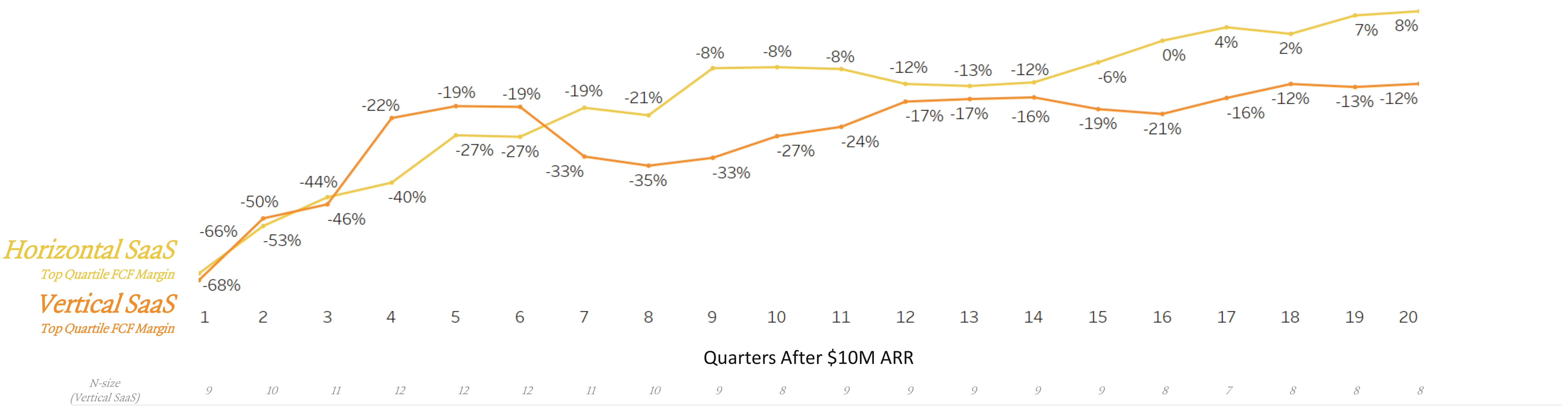
1 Quarterly operating and financial data from the vertical SaaS companies included
2 Total Sales & Marketing OpEx includes Customer Success

It usually takes longer for vertical SaaS companies to achieve profitability than horizontal SaaS companies of similar scale, likely due to higher COGS and operating investments often required for vertical SaaS companies to scale

FCF Margin from $10M ARR[1]

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

Vertical SaaS businesses can generate generous FCF at scale, often better than horizontal SaaS, as R&D and G&A rationalize while seeing additional leverage from S&M efficiencies.



1 Quarterly operating and financial data from the vertical SaaS companies included

Appendix

Supplemental Materials

For more research, please visit the ICONIQ Growth insights page

Companion Reports	Vertical SaaS	Product-Led Growth	Scaling to $10M
Tools & Reference Materials	Board Reporting Template	The SaaS Glossary	Interactive Dashboard *Portfolio Only*
2023 Report & Scorecard Overviews	The New Era of Efficient Growth	The Enterprise Five	The Resiliency Rubric

A global portfolio of category-defining businesses

1Password, adyen, Age of Learning, airbnb, Airtable, ajaib, Alibaba.com, alteryx, APPRENTICE, APTTUS

articulate, aurora, AUTOMATTIC, AXONIUS, bambooHR, Benchling, BetterUp, bill.com, BLACKLINE, braze

Calendly, Campaign Monitor, causaly, CaptivateIQ, chime, CLARA, Collibra, conexiom, coupa, CROWDSTRIKE

cyberGRX, DATADOG, dataiku, dbt, DevotedHealth, dexcare, dialpad, DocuSign, DRATA, enfusion

Epic, EPIC GAMES, ezcater, fastly, fetch REWARDS, Fireblocks, Fivetran, Flipkart, FREEWILL, FTX

Gem, GitLab, gofundme, GoodRx, GreenSky, Groww, Guild, HashiCorp, headspin, HEPTAGON

highradius, HIGHSPOT, hightouch, Hippo, HONEST, houzz, iex, INTERCOM, invision, komodo HEALTH

loom, Lucid, MARQETA, miro, MONTE CARLO, motorway, Moveworks, Nayya, netskope, notable

Notion, orca security, panther, people.ai, Pigment, Pinecone, PLURALSIGHT, Primer, PROCORE, QGenda

ramp, recharge, RED VENTURES, Reify HEALTH, Relativity, Re/prise, Restaurant365, Robinhood, SANITY, sendbird

ServiceTitan, shopmonkey, side, skuid, SMARTLING, snowflake, SPOTNANA, sprinklr, SQUIRE, TENCENT MUSIC ENTERTAINMENT

truckstop.com, turbonomic, twin, Twistlock, Uber, Unit21, UNITE US, vic.ai

virtru, WARBY PARKER, wayfair, Wealthsimple, Wolt, zinier, zoom

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Technology matters. Strategy matters.
People matter most.

ICONIQ | Growth

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