Q224 flash report: Growth is trending up

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Our flash reports use real data from a representative sample of enterprise software startups and public companies to help founders contextualize their own numbers with their peers and within the larger economic climate. Check out our Q1 update and our Scale Studio tools to benchmark your most important operating metrics.

The good news: growth is picking up. Year-over-year ARR growth shows strong signs of recovery, with both the median (31%) and top quartile (55%) improving strongly quarter-over-quarter. GAAP revenue growth lags ARR, but still up to a median of 31%. Operating margins have also improved across the sample with median operating margin now -41% v. -83% this time last year.

The not-so-good news: growth is still below what companies were expecting at the start of the year, with median plan attainment of 62%. Big picture, it is still hard work out there for startups, but the combination of higher growth and better operating margins means all the hard work is slowly starting to pay off.

The big takeaways from Q2:

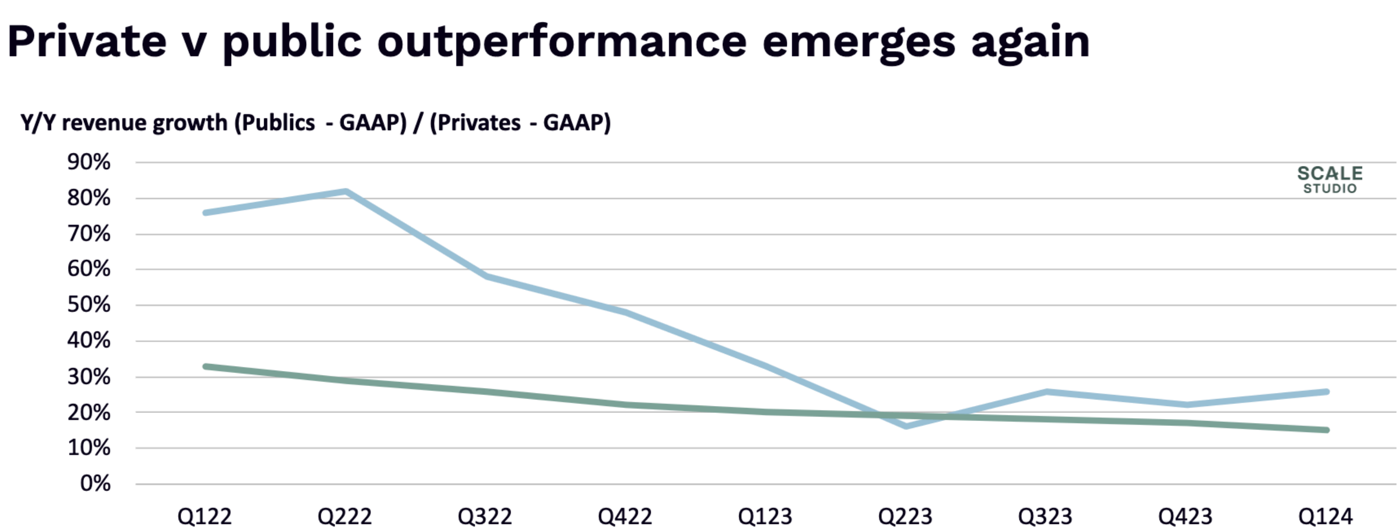
ARR growth has increased, albeit slowly. This has been powered by a significant jump in NNARR. This is the third consecutive quarter that we've seen overall growth in NNARR.

Operating margin has improved quarter over quarter. The median in Q2 shows the best rates we've seen in two years. We credit this to the realized impact of the efficiency measures from last year and new growth.

Winners of the past year will be able to do more with less. ARR growth is back, while burn is flat. We expect this year's success stories to involve steady growth and increased efficiency of cash spent rather than the drastic burn cuts as startups exit survival mode.

To understand how we got here, let's look back at the trends over the last few quarters:

Public vs. private growth, FY2023 vs. FY2024 projections



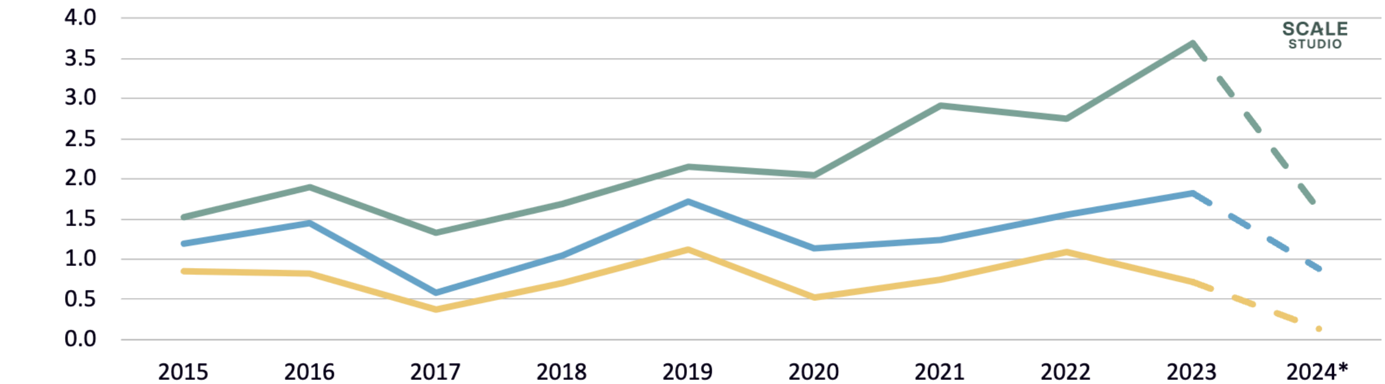
Private	76%	82%	58%	48%	33%	16%	26%	22%	24%
Public	33%	29%	26%	22%	20%	19%	18%	17%	15%
Priv/Pub	2.3x	2.8x	2.2x	2.2x	1.6x	0.8x	1.5x	1.3x	1.6x

Both private and public multiples are represented as medians, Priv/Pub is represented as a ratio

While public growth continues to slow, private companies are growing twice as fast as their public counterparts. This was not the case last year, when public and private companies experienced a simultaneous slowdown. The performance in Q1 of 24 and the forecasts for FY24 suggest that private companies have changed their operating model and have figured out how to grow while maintaining efficiency gains from the last few years.

Burn multiple, FY2023 vs. FY 2024 projections

Yearly burn multiple shows limited to no improvement



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
TD	0.8	0.8	0.4	0.7	1.1	0.5	0.8	1.1	0.7	0.1
TQ	1.2	1.4	0.6	1.1	1.7	1.1	1.2	1.6	1.8	0.9
Median	1.5	1.9	1.3	1.7	2.2	2.0	2.9	2.8	3.7	1.6

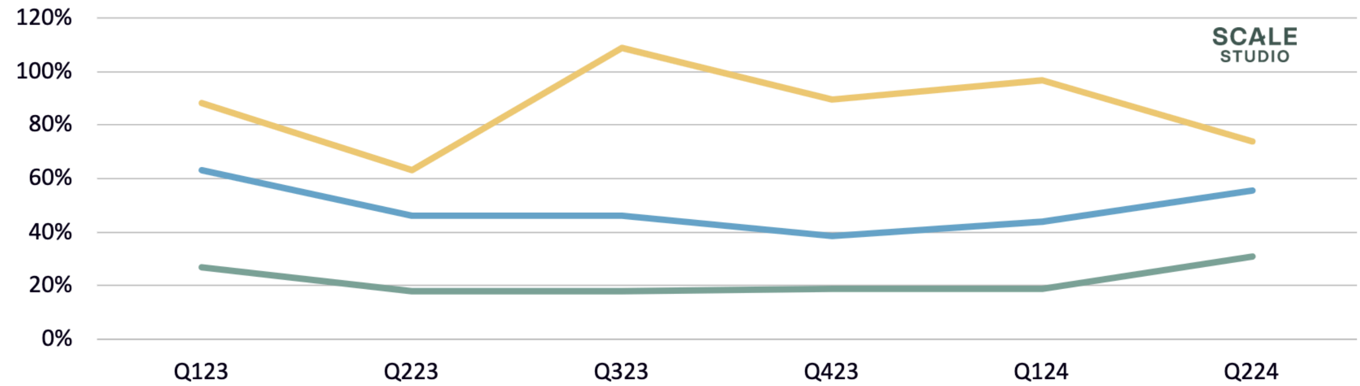
Asterisk denotes projections

Despite the push for efficiency in 2023, burn multiples showed only modest improvement in the top decile from 2022 to 2023 due to flagging growth. Given these factors, most startups' main focus in 2023 was on survival. Looking into 2024, the forecast for burn multiple shows improvement due to the focus on increasing growth rate while maintaining manageable burn.

Has growth returned?

ARR growth begins to trend up

Vital sign benchmarking: Y/Y ARR growth

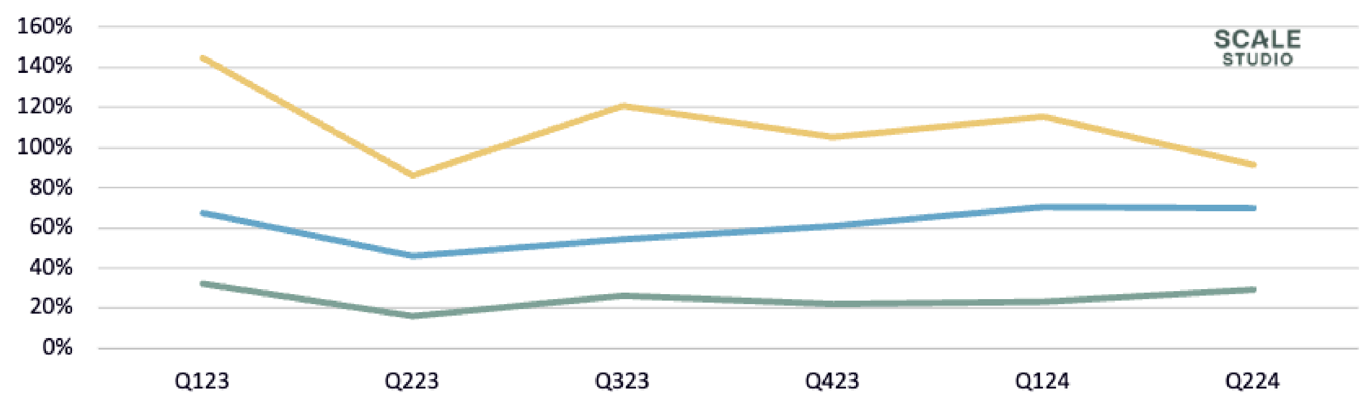


Top decile	**88%**	**63%**	**109%**	**90%**	**97%**	**74%**
Top quartile	**63%**	**46%**	**46%**	**38%**	**44%**	**55%**
Median	**27%**	**18%**	**18%**	**19%**	**19%**	**31%**

Growth is back, just at a tempered, hopefully more sustainable pace. This is mostly consistent with our 2024 projections. Year-over-year ARR growth shows signs of recovery, with both the median and top quartile experiencing quarter-over-quarter increases.

GAAP growth continues gradual improvement

Vital sign benchmarking: GAAP revenue

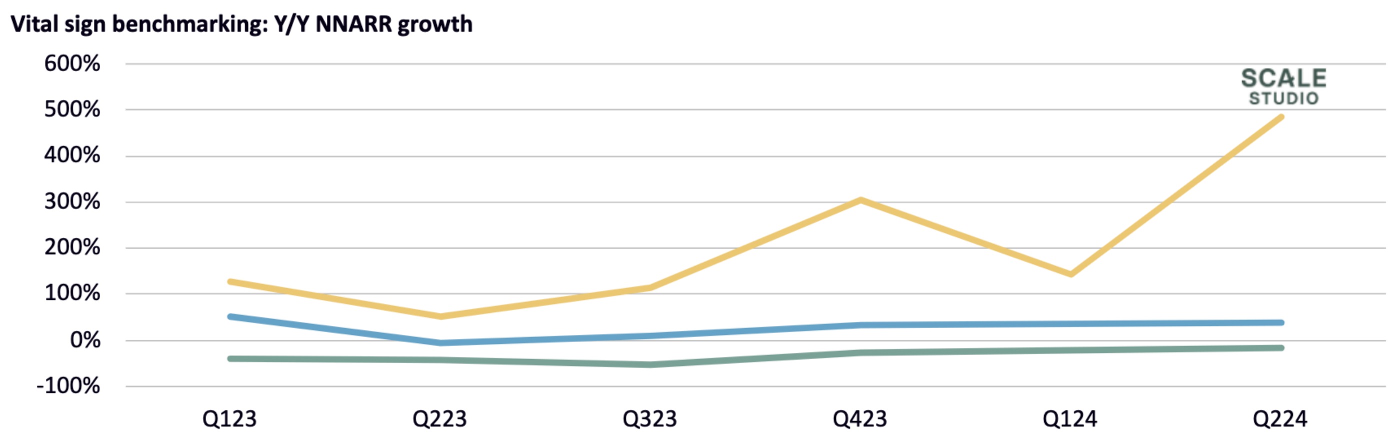


Top decile	**144%**	**86%**	**121%**	**105%**	**115%**	**91%**
Top quartile	**67%**	**46%**	**54%**	**61%**	**70%**	**70%**
Median	**33%**	**16%**	**26%**	**22%**	**24%**	**29%**

GAAP revenue growth also accelerated, though not as strongly as the gains in ARR. This echoes the trend observed in Q124, where GAAP revenue and ARR did not perfectly align but generally trended in the same direction.

NNARR fuels ARR growth

NNARR growth rates improve, driving overall ARR growth

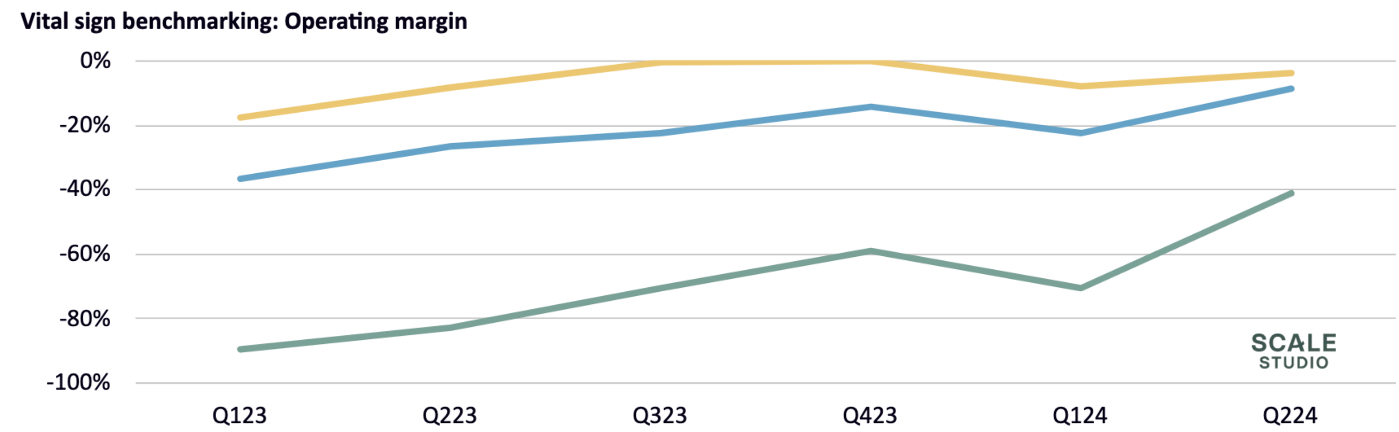


Top decile	127%	53%	113%	306%	144%	485%
Top quartile	52%	-6%	9%	34%	36%	38%
Median	-40%	-43%	-53%	-28%	-23%	-17%

In the latest quarter, ARR saw a notable bump, with most companies starting to catch up to the high marks top decile players hit last quarter. This boost in ARR is largely due to a sharp rise in NNARR. While there's some mismatch between the top decile, quartiles, and median cuts in the NNARR data and what the ARR graph shows, it's clear that the players in the median and second quartile that experienced a big jump are also top performers in NNARR. This points to real growth in the sector. We believe that the continual rise of NNARR represents more than just sample bias—it's a sign that the enterprise SaaS market, while mature, continues to see net new adds and growth.

Operating margin shows improvement

Operating margin continues to show improvement



Top decile	-17%	-8%	0%	0%	-8%	-4%
Top quartile	-36%	-26%	-22%	-14%	-23%	-8%
Median	-89%	-83%	-70%	-59%	-71%	-41%

As growth returns, operating margin has shown quarter over quarter improvement with the median improving to rates not seen in the past two years. These improvements are likely a mix of the efficiency measures from last year and improvements in growth. This improvement could signify a period of “this for that” decision making, where spend is consistently scrutinized for generating healthy revenue. Rather than continuing to cut burn, we expect the focus will shift to spend efficiency.

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