State of Enterprise Software

A 2025 benchmarking analysis of
VC-backed Enterprise Software metrics.

HSBC Innovation Banking

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2026: A Software Inflection Point

Will this year really be a ‘SaaSpocalypse’ for enterprise software?

Foreword

It feels as though the dust is only just settling on a momentous 2025 – yet the pace of innovation shows no sign of slowing.

Over the last 12-18 months, a clear narrative has emerged: Western economies are becoming increasingly ‘K-shaped’ with market weighting becoming more concentrated around a small group of leading companies, while others fall behind. In our view, the data tracked in this report points to a similar pattern within enterprise software – driven by a distinctly K-shaped phase of AI adoption amongst software ‘incumbents’.

Strong performers are adjusting smartly to AI. They are harnessing AI to sustain growth while keeping churn, gross margins and burn efficiency steady. Others, however, are struggling to keep pace.

The jury is out whether today’s leaders have established a durable advantage – one that will accelerate further into 2026 and beyond – or whether the speed of change will continue to test the competitive landscape, exposing even established players to disruption.

Enterprise software space has navigated volatile cycles before. We remain optimistic. The UK continues to produce ambitious, world class software founders – and we are proud to support them as they build, scale and lead through this next phase.

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The enterprise software benchmarks for 2026

Where does your company sit?

	Metric	Benchmark	Commentary
REVENUE ENGINE	ARR Growth	Median: 22% 75th Percentile: 38%	Median ARR growth in 2025 was slightly slower than the previous year. However, top performers showed continued resilience and agility with companies in the top quartile still growing ARR by 38% in 2025.
RETENTION ENGINE	Annualised Churn	Median: 13% 75th Percentile: 10%	In 2025, the median company in our dataset reduced annualised churn compared to the previous year (16% down to 13%) and we also saw NRR improve across all quartiles, indicating that enterprise software companies are successfully deepening customer relationships.
	Net Revenue Retention	Median: 105% 75th Percentile: 111%	
EFFICIENCY ENGINE	Burn Multiple	Median: 1.1x 75th Percentile: 1.0x	Companies in our dataset became significantly more efficient in 2025. Burn multiples reduced across all cohorts, while gross margins increased slightly across the board.
	Gross Margin	Median: 83% 75th Percentile: 87%	

Overall, 2025 was a year of impressive adaptation for enterprise software companies. Our data indicates that solid revenue growth and improved efficiencies can indeed go hand in hand. Deep, sticky customer relationships and an ambitious attitude to exploring AI-driven opportunities will continue to be crucial through 2026."

Emily Turner, CEO, HSBC innovation Banking

Our dataset

Data from a subset of 50 Series A+ Enterprise Software companies, tracked between 2023 and 2025.

Core verticals:

Cybersecurity, Compliance, & Governance

AI, Data & Analytics

Applications

Software Infrastructure

> AI will automate parts of the SaaS workflow layer, but it doesn't remove the need for trusted systems. The vendors that win will have the data, and compliance logic that are trusted enough for machines to act on automatically."
>
> Dominic Allon, CEO, Cognism

2025 in software: cautious, but confident

Financial health of the companies in our dataset remain strong. While YoY ARR growth softened in 2025, retention and gross margins showcase the robustness of SaaS, and burn efficiency has improved unanimously across the board.

While commercial performance remains solid, software businesses are taking deliberate measures to boost cash and guard against future volatility.

SaaSpocalypse? We think not.

Almost [$1 trillion] was wiped from US software and services stocks in the first quarter of 2026. But despite increased uncertainty, last year's numbers were cause for confidence, with revenue growth and earnings enduring across private and public markets.

We expect overall enterprise IT spend, and software earnings, to endure this year. As HSBC's Head of US Technology Research Stephen Bersey said in February, "We expect software's TAM to keep expanding."[1] AI disruption is not to be discounted, but the overall size of the pie is growing too.

[1] 'The Macro Brief', 12th February 2026. https://www.youtube.com/watch?v=JrrdzD13mBM

ARR growth

Average top line growth was softer in 2025 compared to the previous year as companies aggressively lean their cost base.

In 2025, ARR growth in our dataset of enterprise software companies declined slightly from the previous year, down to 22% from a median growth rate of 29% in 2024.

Top performers showed continued resilience and agility with companies in the top quartile growing ARR by 38% in 2025. As expected, earlier-stage* companies grew significantly faster than their more mature peers last year (42% mean, versus 24% for later-stage** companies).

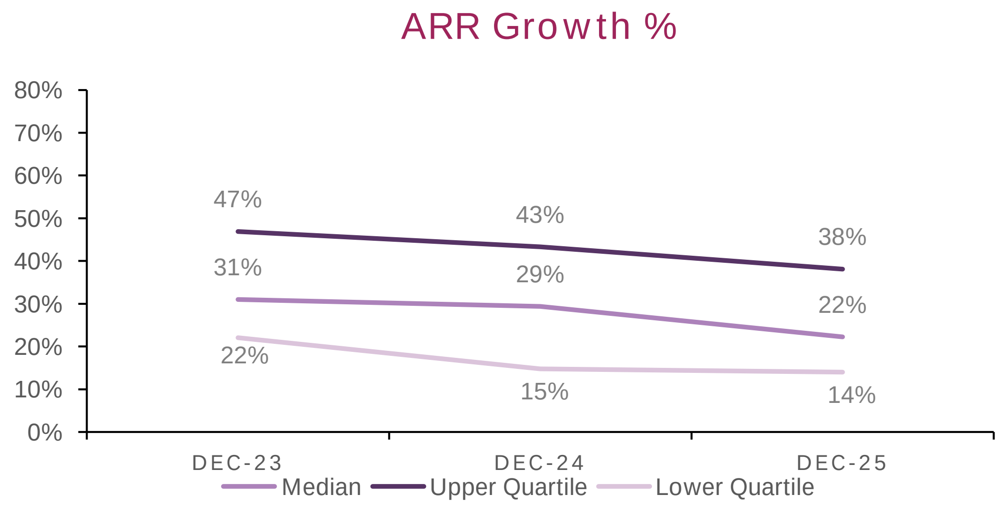
In 2025 ARR growth in the top quartile was more than 2.7x faster than the companies in the bottom quartile, a wider gap than in 2023, when revenue growth at the top quartile was just over 2.1x that of the bottom quartile companies.

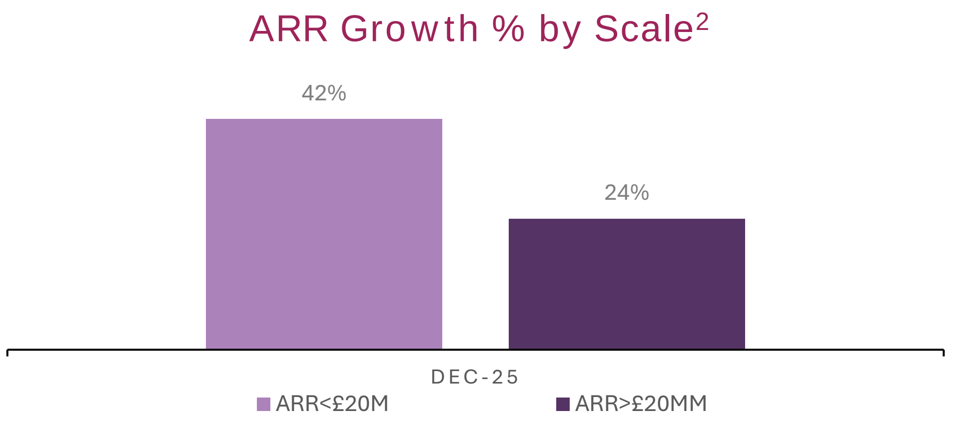
The environment is more volatile today, forcing software businesses to take deliberate steps to improve efficiency at the sacrifice of driving topline. Expansion ARR from an existing customer base becomes a more prominent strategy amongst these maturer companies.

A recent High Alpha report[1] noted that once companies hit $50 million in recurring revenue, expansions and upsells are responsible for 60% of new ARR. We have seen conservatism over revenue forecasts continue into 2026, but also more prevalence of higher-growth scenario forecasts.

*Earlier Stage: <£20m ARR
**Later Stage: >£20m ARR

[1]www.highalpha.com/saas-benchmarks
[2] Taken as an average





Retention

Despite uncertainty in the market, customer retention strategies enhanced product utility to existing customers and improved retention.

Worries that customers will 'abandon ship' and desert enterprise software companies for AI-native solutions have thus far been unfounded. The median across our dataset reflects the opposite; there was lower churn in 2025 (13%) vs that in 2023 (16%).

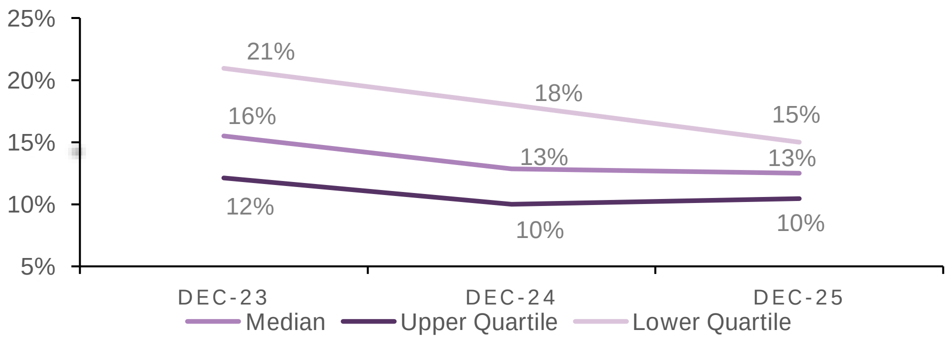
Meanwhile, companies have focused on deepening relationships with existing customers, with positive effects. Even amongst the lower quartile, companies demonstrate over 100% NRR in 2025, up from 92% in 2023. The median company in our dataset has NRR of 105%, implying that our cohort of enterprise software companies is more than compensating for revenue lost to churn through expansions, upsells and pricing changes.

Churn is around two-thirds lower for the upper quartile compared to the lower quartile. In an uncertain environment, companies deepening existing moats by demonstrating the power of embedded AI together with real domain expertise are positioned to thrive.

Earlier-stage startups conventionally see higher churn than later-stage companies. This proved to be true in 2025, although the difference was not huge: earlier-stage companies experienced 18% churn versus 13% for our later-stage dataset.

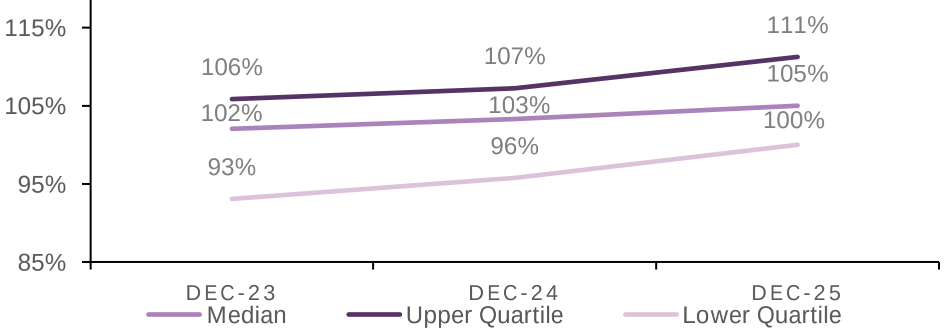
> "AI isn't displacing enterprise software so much as it's revealing what can't be commoditised. Agents can build applications, but we're seeing from market demand that the infrastructure layer is more critical than ever."
>
> Bethany Ayers, CEO, Metomic

Annualised Revenue Churn



Churn represents revenue from existing customers which is lost per year. Here, we treat top quartile companies as 'stronger performers' experiencing lower churn, with the lower quartile experiencing higher churn.
Net Revenue Retention (NRR) measures how much a cohort spends versus a previous period, factoring in upsell, cross-sell and price increases.

Net Revenue Retention (NRR)



Cost efficiency

Across the board, enterprise software companies doubled down on capital efficiency in 2025 – and they are delivering

In 2025, enterprise software companies focused in on capital efficiency. The results are clear to see. The mean burn multiple – expressed as a ratio weighing cash burn against net new ARR – reduced from 1.9x in 2024 (implying the median company burned £1.90 of cash to make each £1 of new revenue) down to an average of 1.1x last year.

For scaling venture-backed companies, the goal is to get close to 1.0x, the mark at which each pound of cash spent reliably generates that much in new revenue. The top quartile of our dataset hit exactly this benchmark in 2025, from 1.3x the previous year.

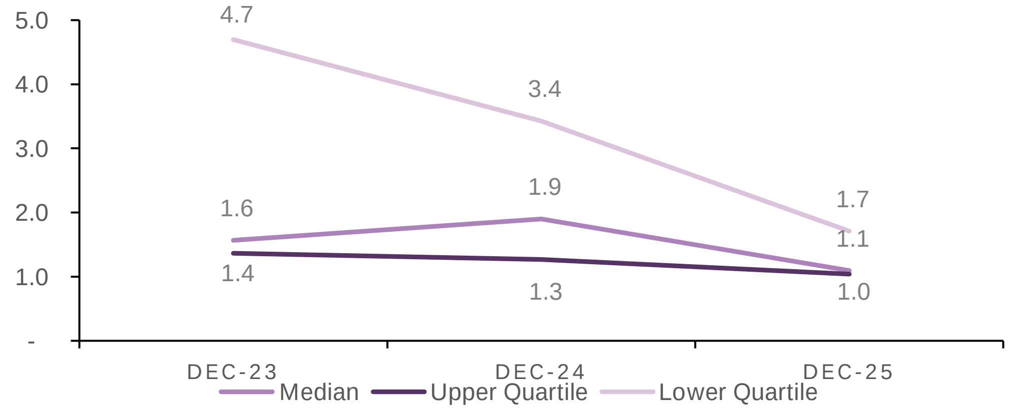
Even as burn efficiency improved markedly across our dataset, gross margins also ticked upwards. The median gross margin has steadily improved from 82% in 2023 up to 83% in 2025. Top quartile performers enjoy gross margins of 87%, but interestingly, the bottom quartile has seen the largest improvement from 76% in 2023 to 79% in 2025.

Software leaders are paying full attention to their capital efficiency at present – no mean feat when grappling with AI-oriented transformations. But the companies in our dataset have combined top-line revenue growth with lower burn multiples and steady gross margins, putting them on a strong footing to continue innovating and scaling this year

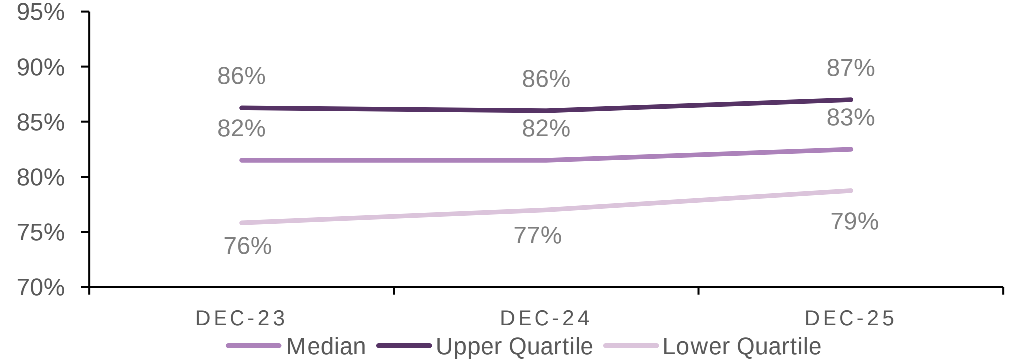
> "AI-native businesses are fundamentally scaling in different ways to the traditional software incumbents. Today at Wordsmith we are optimising for productivity per employee as one of our core measures of success. Token spend, for instance, will become significantly more important for our unit economics through this year and beyond."
>
> Ross McNairn, CEO, Wordsmith AI

Burn Multiple

Burn Multiple measures how much cash a company burns to generate each new dollar of ARR, calculated as Net Burn / Net New ARR.



Gross Margins



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Thinking beyond the ‘SaaSpocalypse’

As software companies race to embed AI, we consider potential flashpoints and opportunities for senior leaders to consider in 2026

1 Software unit economics are being transformed

- The last couple of years have seen a momentous decoupling of headcount and revenue. ARR per FTE has already been increasing in software, and we expect this trend to continue and potentially accelerate further in 2026.
- AI is likely to be a key driver of a shift in volumes towards a hybrid of usage-based pricing models. Early movers may face resistance, but pricing innovations could deliver real added value for companies bold enough to consider new revenue models.

2 Rising AI costs might be on the horizon for 2026

- Organisations have thus far been able to embed AI without incurring onerous costs, as hyperscalers and AI innovators have underwritten much of the capital expenditure required to run complex models and agentic workflows. If cutting-edge products become significantly more expensive in the year ahead, embedding AI will likely soften gross margins due to higher inference costs.
- However, the fundamentals of sustainable scaling – consistent revenue growth, defensible margins, deep and sticky relationships with customers – are unlikely to change dramatically any time soon.

3 AI has focused minds, and SaaS companies will deliver

- Software companies have had to deal with high levels of volatility from customers and investors in the last year. But the financial fundamentals in our dataset remain sound. The reports of software’s demise are greatly exaggerated.
- Indeed, the best enterprise software companies may well become some of the world’s most sophisticated users and sellers of AI. As Stephen Bersey, Head of US Technology Research at HSBC, observed in a recent report*, these businesses “have been aggressively working to leverage and embed AI into their global platforms”.

> “We keep a very close eye on our go-to-market metrics and how we are doing relative to our peers and competitors. Being able to demonstrate solid ARR growth, retention and efficiency is how we can scale fast and sustainably, and continue building trust with our investors.”
>
> Fredrik Skantze, CEO, Funnel

*Stephen Bersey, Abishek Shukla and Sameer Lam, ‘Software 2026: Our AI Outlook’, Feb 2026

Thank you

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