

STANDARD METRICS PRIVATE MARKET REPORT

Rule of 40, Revisited

Applying the four-zone Rule of 40 and Rule of X frameworks at the scale of 1,377 private companies.

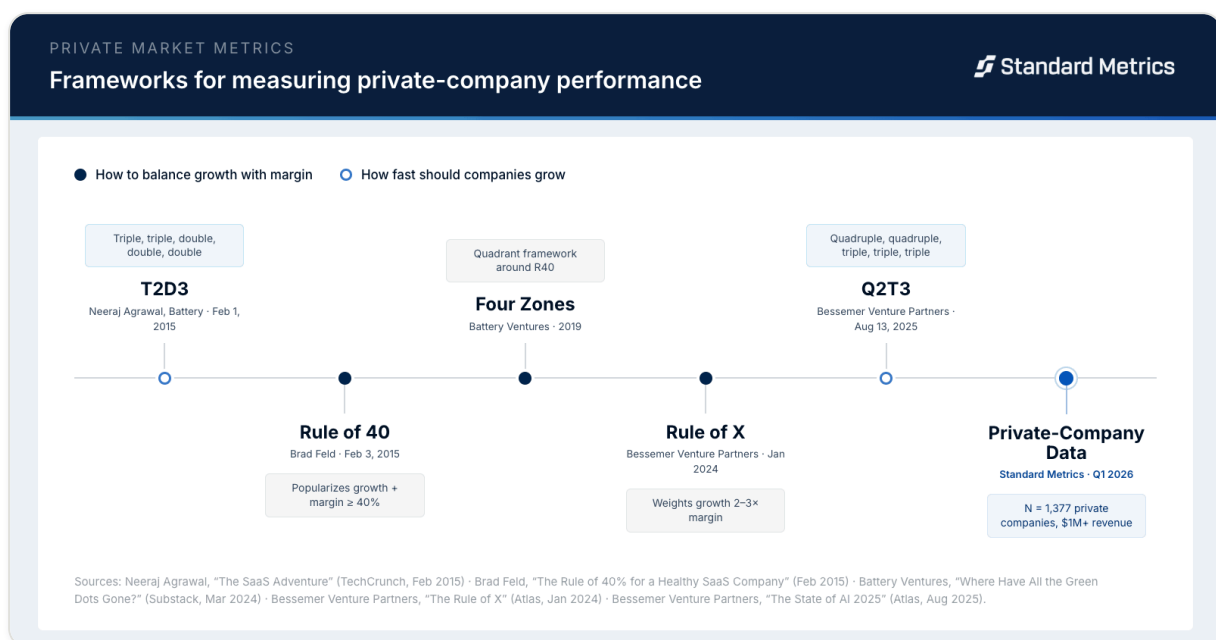
Published July 2026 · N > 10,000 companies · 2021–2026 Q1 dataset

The Rule of 40 has been the default health check for software companies for a decade

Brad Feld popularized it in [a 2015 post](#), framing it as a heuristic for late-stage SaaS: a company's growth rate plus its profit margin should equal at least 40%. The rule caught fire: it was clean, memorable, and it put growth and profitability on the same scoreboard.

In 2019, Battery Ventures built on that idea with a [four-zone framework](#). They split cloud companies by two questions: did they clear R40, and were they growing 30%+. Four quadrants, four colors, an easy way to track investor sentiment quarter over quarter.

Then in 2024, Bessemer [argued the original math was wrong](#). Their analysis of cloud valuations showed growth was worth two to three times more than free cash flow margin. They proposed Rule of X, which weights growth before adding it to margin, and showed it had a stronger correlation with valuation multiples than R40.



Every iteration of this conversation has come from private-market investors, but the underlying analysis has run either on public data or on the smaller private-market datasets that individual firms can see through their portfolios. We haven't seen this framework tested at the scale of 1,000+ private companies.

So we took it on for our latest Private Market Report. Standard Metrics aggregates anonymized financial data from ~10,000 venture-backed private companies across industries to explore stories like whether [AI companies are truly growing faster](#) or [the comeback of fintech](#).

For our analysis in Q1 2026, 1,377 companies in our dataset had both reported financials and \$1M+ in annualized revenue and became the cohort for this analysis on the Rule of 40. To apply the framework to our analysis we used Battery's two-question structure, but applied a growth rate threshold of 35%, the median YoY revenue growth in our Q1 2026 cohort of companies with \$1M+ in annualized revenue.

What follows is a deep analysis of how the Rule of 40 framework plays out across our private-company dataset. About a quarter of companies clear the R40 threshold, almost always through growth alone, not balanced performance. Of the ones that don't, a third show promise with high growth, while the rest are growing slowly and aren't profitable either. AI companies sort differently across the zones, over-represented in the high-growth ones. And the fastest-growing companies aren't winning by outspending everyone: they spend roughly half as much on sales and marketing as their closest peers, relative to revenue.

CONTENTS

Rule of 40, Revisited

01 The four zones

02 How the composition shifted, 2021–2026

03 AI vs Non-AI: same zones, different mechanics

04 Inside Zone 1 Growth-first scalers: scale buys margin, costs growth

05 Inside Zone 3 Pre-margin growers: a different operating model

06 A teaser into the Rule of X: a different lens for scaled companies

— Closing & methodology

DISCLOSURES

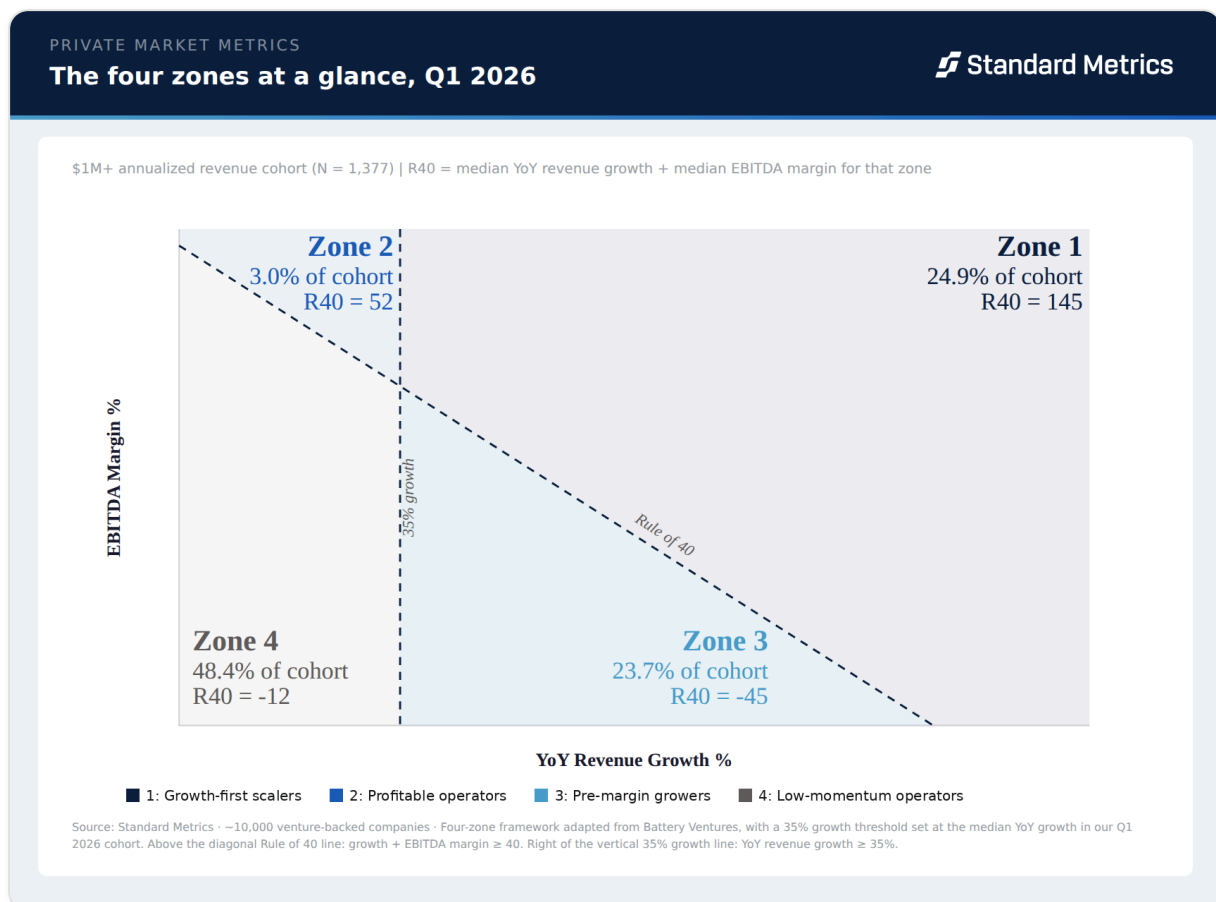
- Companies are segmented into annualized revenue bins (\$1–5M, \$5–20M, \$20–100M, \$100M+) based on revenue as of each quarter; a company can move between segments over time.
- YoY growth compares the same quarter to the prior year. Median refers to the 50th percentile of the distribution.
- The 35% growth threshold used throughout is the median YoY revenue growth in the Q1 2026 cohort, held constant across historical quarters for comparability.
- AI classification is determined via Parallel Web Services enrichment, high-confidence records only, applied at the company level and held constant across all quarters a company appears in.
- Data points with fewer than 30 companies are excluded from all charts. Companies control their own data and can opt out of anonymous benchmarking at any time.

01

The four zones

TL;DR

About 28% of \$1M+ private companies cleared Rule of 40 in Q1 2026. Almost all got there through growth velocity, not balanced performance. Zone 1 (Growth-first scalers) outnumbers Zone 2 (Profitable operators) by more than 8x.



The four-zone structure, introduced by Battery Ventures, is a useful framework for plotting where a company falls in the balance between growth and profitability. It's the calculus behind the Rule of 40. Zone 1 (Growth-first scalers) and Zone 2 (Profitable operators) both clear the Rule of 40: the former through high growth, the latter through strong margins. Zone 3 (Pre-margin growers) and Zone 4 (Low-momentum operators) both fall short. Zone 3 because, despite fast growth, deep margin burn pulls the R40 sum below 40. Zone 4 because both growth and margin are low.

Zone	What it means	Cohort share
● Zone 1. Growth-first scalers	Above R40, growing $\geq 35\%$. Clearing the bar through velocity, accepting margin burn as the cost of capturing market.	24.9%
● Zone 2. Profitable operators	Above R40, growing $< 35\%$. Slower growth, strong profitability.	3.0%
● Zone 3. Pre-margin growers	Below R40, growing $\geq 35\%$. Growing fast, but the margin gap drags the R40 sum below 40.	23.7%
● Zone 4. Low-momentum operators	Below R40, growing $< 35\%$. Both growth and margin are low. Neither optimizing for growth nor for R40.	48.4%

Of the 1,377 companies with \$1M+ in annualized revenue, 27.9% cleared Rule of 40 in Q1 2026. But that number splits very unevenly across the two paths to clearing, Zone 1 and Zone 2.

Zone 1 holds 24.9% of the cohort. These are the growth-first scalers. The median company grew 158% YoY at -13% EBITDA margin, for a R40 score of 145. They aren't profitable, but they're growing fast enough that the math still works.

Zone 2 holds just 3.0%. These are the profitable operators, with slower growth balanced by strong margins. Median: 17% growth, 35% margin. R40 sum: 52. They cleared the bar with margin discipline rather than velocity. This is the rarest of the four zones in our dataset.

There's also an uneven split of the dataset below R40.

Zone 3 holds 23.7%, nearly the same share as Zone 1. The median Zone 3 company grew 65% at -110% margin, burning more than revenue. They're growing fast enough to clear the growth threshold but the burn pulls them below R40. R40 sum: -45 .

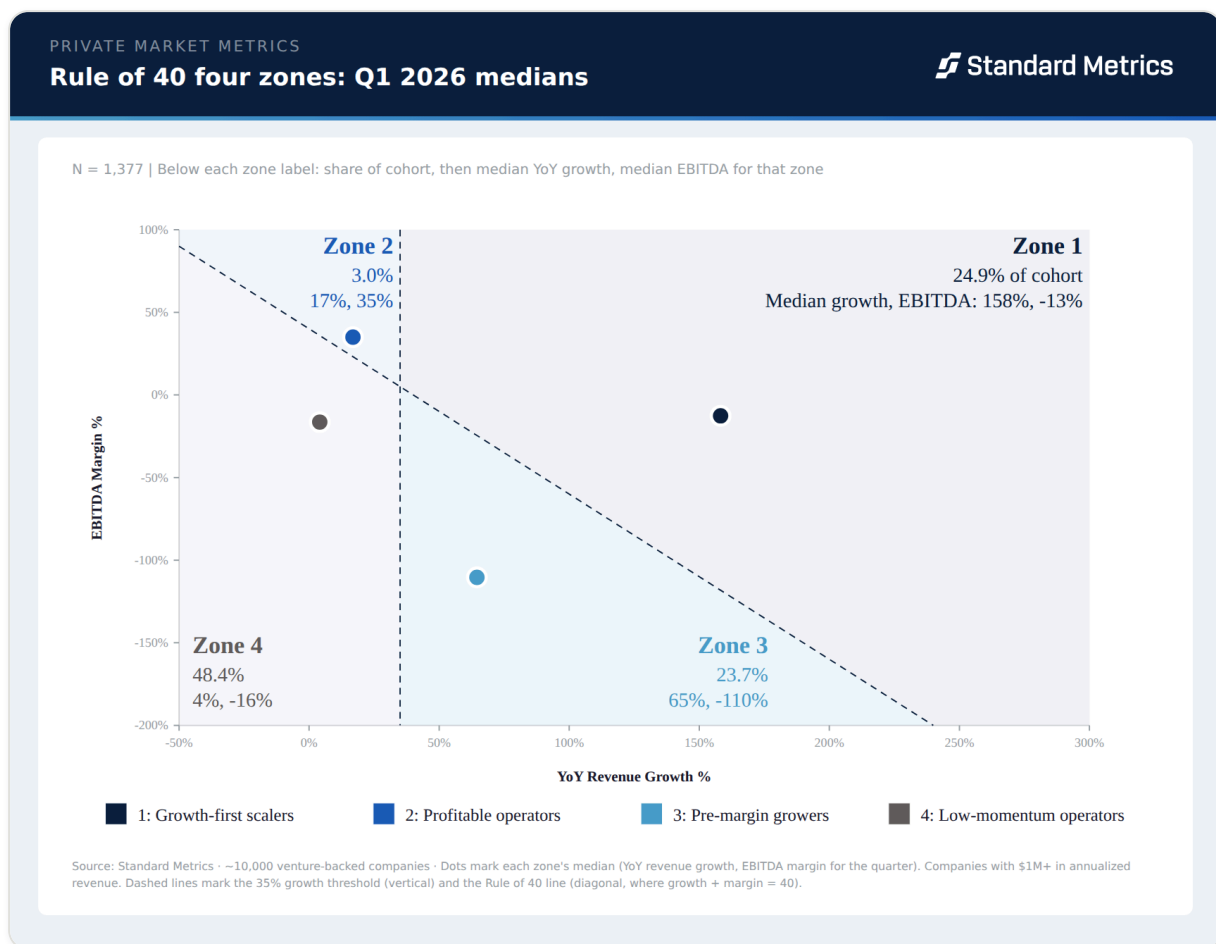
Zone 4 holds 48.4% or almost half the cohort. These companies have modest growth and modest burn. Median: 4% growth, -16% margin. R40 sum: -12 . Neither optimizing for growth nor for R40.

What the distribution tells you

Two things stand out when you read the zones together.

First, almost everyone above the R40 line got there the same way. Of the companies clearing R40, 89% cleared through growth (Zone 1) and only 11% cleared through balance (Zone 2). At the scale we're measuring, growth is doing almost all the work.

Second, Zone 3 is nearly the same size as Zone 1. As many companies are growing fast while burning hard as are growing fast while burning manageably. The growth-burn relationship within fast-growing companies isn't a smooth gradient.



Two companies with the same R40 sum can sit in different zones with very different operating profiles. A company at 40% growth and 0% margin clears R40 (sum: 40, Zone 1). A company at 25% growth and 15% margin also clears R40 (sum: 40, Zone 2). Same math, different business.

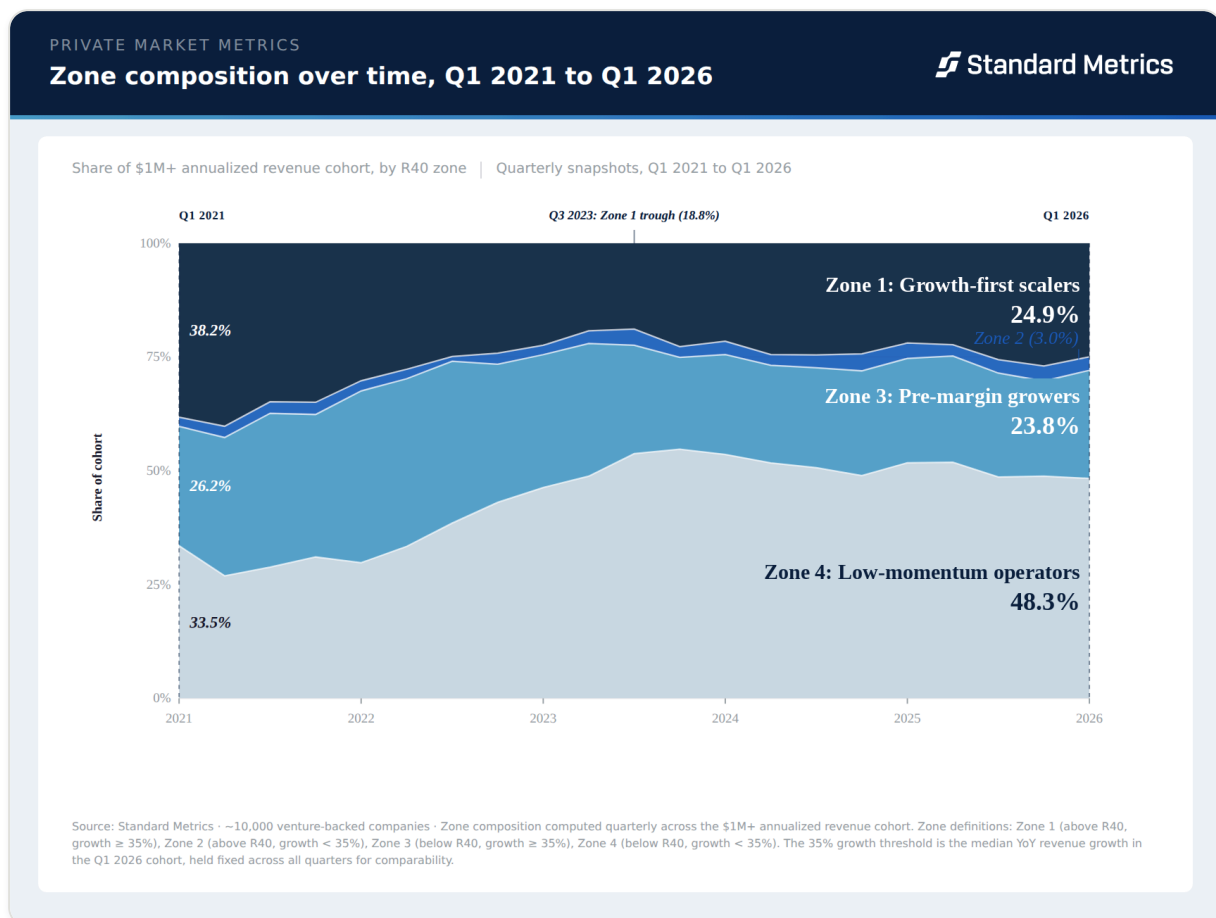
The zone classification answers a question the R40 sum can't: how is this company achieving its result? Through velocity, through discipline, or by failing to do either?

02

How the composition shifted, 2021–2026

TL;DR

The four zone composition has shifted materially since 2021. Zone 4 (low-momentum operators) now makes up a higher share of the cohort, while Zone 1 (growth-first scalers) dropped its share from 38% in 2021 to 25% today. The post-ZIRP reset is reflected by this change and Zone 4 companies leaner operations in 2026 seem to be a direct response to this. However, the high-growth zones in the private markets didn't empty out as significantly as they did in the public markets.



The shape of the cohort changed materially between Q1 2021 and Q1 2026.

Zone 1 fell, then partially recovered. In Q1 2021, 38% of \$1M+ companies were Zone 1 growth-first scalers. By Q3 2023 that share had collapsed to 18.8%. Q1 2026 sits at 25%: a real recovery from the trough, but still 13 pp below the 2021 high.

Zone 4 is the durable shift. Low-momentum operators made up about a third of the cohort in Q1 2021. By 2023 that climbed to nearly 55%. Today's 48% is below the peak but well above the 2021 baseline. The four-zone composition has settled into a structurally different shape than the boom era.

Zones 2 and 3 stayed in narrower bands. Zone 2 (profitable operators) hovered around 2–3% the entire five years. The balanced path to R40 was rare in 2021 and is still rare now. Zone 3 (pre-margin growers) peaked around 38% in early 2022 as the late-ZIRP environment let companies grow fast through 2021's momentum, then contracted as growth rates came down across the cohort.

The private-market shift was less severe than the public-market one

Battery Ventures runs an analogous [analysis on public cloud companies](#). When public cloud valuations collapsed after 2022, as rising interest rates made future growth worth less in today's dollars, public companies fell out of the high-growth zones fast. In a March 2024 update, they reported that their Green Zone (the public equivalent of our Zone 1) had collapsed from 14 companies in 2021 to 1 company in 2024. The Blue Zone (Zone 3) fell from 26 to 1 over the same period. Effectively, the high-growth public cloud universe emptied out.

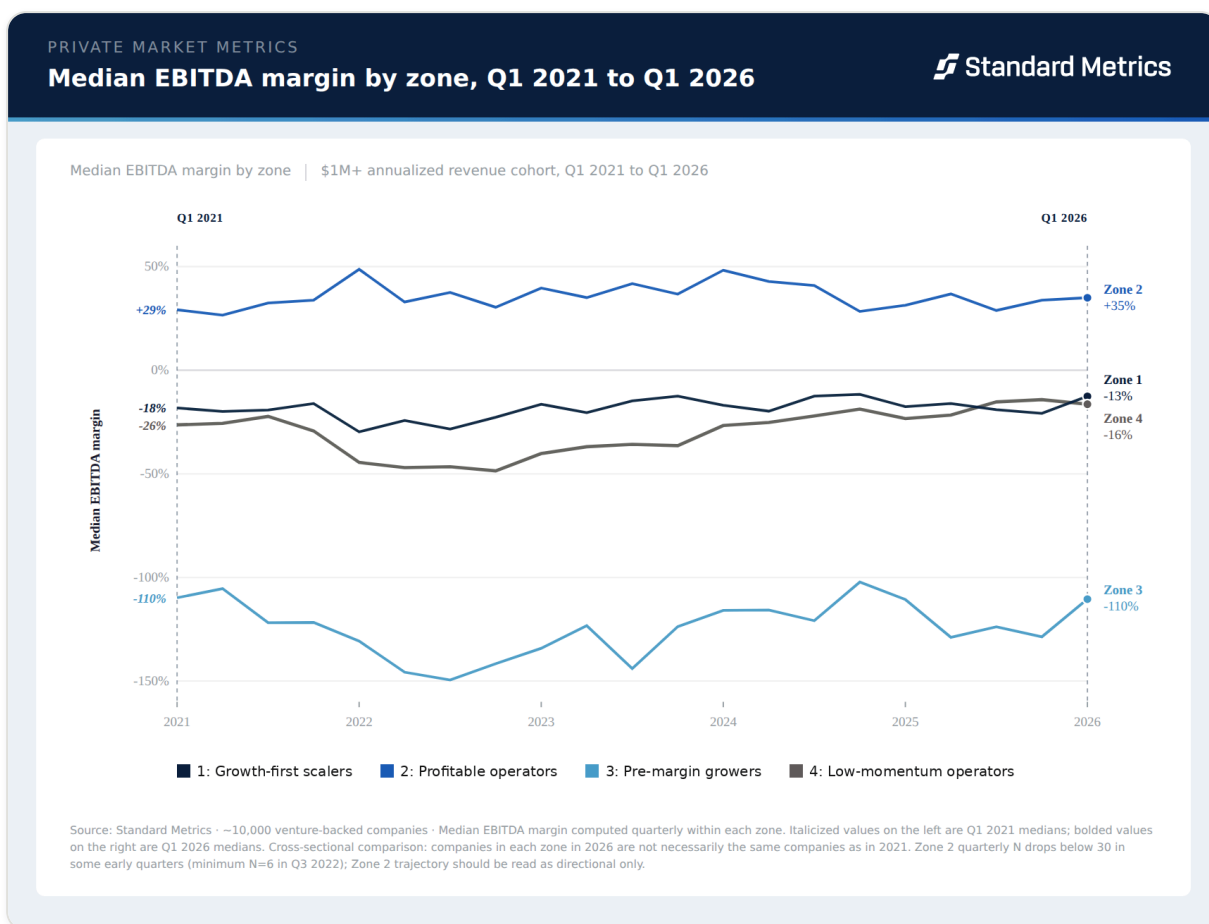
That isn't what happened in private markets. Zone 1 fell from 38% to 25%, a meaningful contraction but a long way from emptying. Zone 3 was essentially flat.

Two readings. First, the mechanism that drove the public-market reset (rising rates, valuation compression, growth penalty) didn't translate directly to private-company operating performance. Private companies kept growing fast in many cases. The valuation environment changed, but the underlying growth rates held up better than the public comparison would predict. Second, this is a useful reminder that public-market signals aren't always private-market signals. The framework Battery developed for public cloud companies tells a sharper story when applied to a population that's actually exposed to public-market pricing in real time. Private companies feel that pricing pressure on a lag, through downstream funding decisions.

Zone 4 today operates leaner than Zone 4 in 2021

Battery's March 2024 update also noted that the public-market "Red Zone" companies (Zone 4, or low-momentum operators) had migrated upward on margin. Companies hadn't escaped the zone, but the zone itself contained leaner-of-margin businesses than it did in 2021.

We see the same pattern in private markets. The median EBITDA margin for Zone 4 companies was -26% in Q1 2021. It was -16% in Q1 2026. That's a 10 percentage point margin improvement, with the lowest point (-48%) reached in Q4 2022. The Zone 4 distribution today contains companies operating substantially leaner than the Zone 4 distribution five years ago.

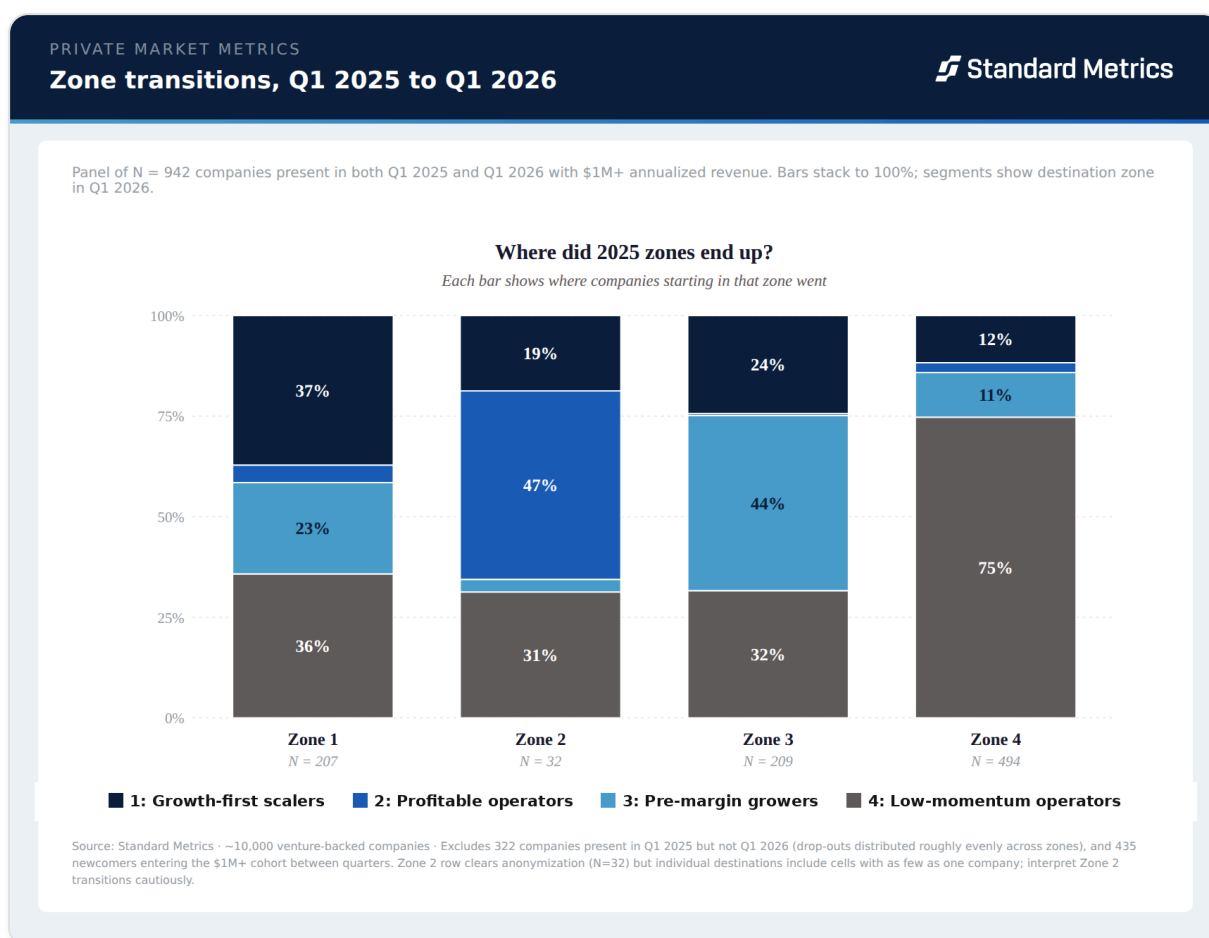


The 2026 medians come from the population currently sitting in Zone 4, not necessarily the same companies that were Zone 4 in 2021.

Zone 4 is sticky over time

The over-time composition view tells us how the cohort's shape has shifted. It doesn't tell us what happens to individual companies inside each zone. To answer that, we ran a year-over-year transition analysis on the 942 companies present in both Q1 2025 and Q1 2026.

Three out of four Zone 4 companies in Q1 2025 were still in Zone 4 a year later. Of the 494 Q1 2025 Zone 4 companies in the panel, 369 (75%) stayed put. The other zones moved more: Zone 1 retention was 37%, Zone 3 retention was 44%, Zone 2 retention was 47% (small sample of N=32).



Zone 4 isn't a transit state for most of the companies in it. The "below R40, modest growth" profile tends to persist year over year. About a quarter of Zone 4 companies climbed to a better zone, which is meaningful but not the dominant pattern.

The five-year shift in Zone 4's share (34% to 48% of the cohort) reflects both new companies entering Zone 4 and existing Zone 4 companies persisting.

03

AI vs Non-AI: same zones, different mechanics

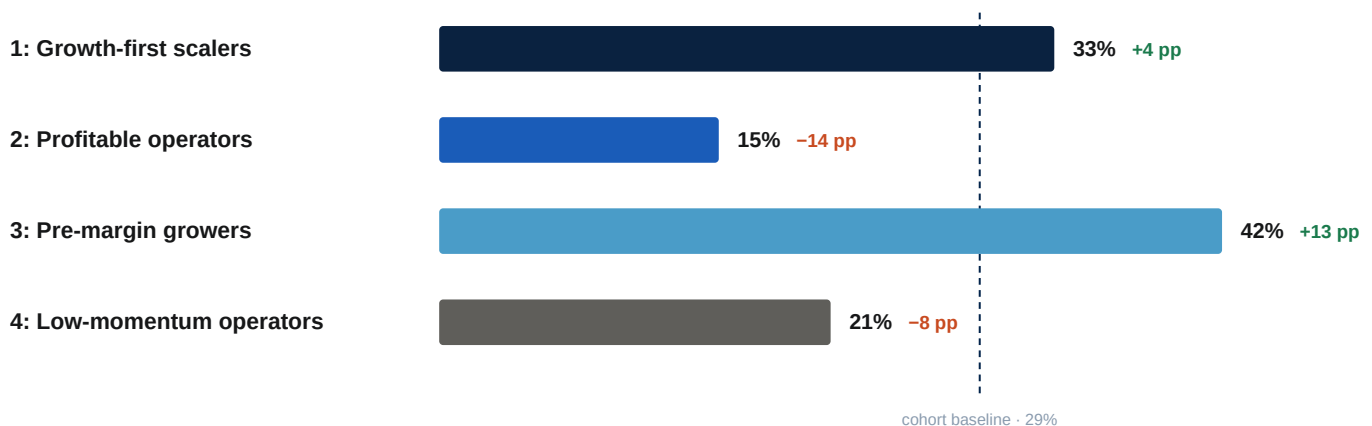
TL;DR

AI companies are a growing part of the Standard Metrics data set (29% of the cohort we examined for this analysis, up from 15% in Q1 2021), and their distribution across the four zones differs from the broader cohort. AI companies grow faster and burn deeper than non-AI companies. As a result, they're concentrated in the high-growth zones - 33% of Zone 1 and 42% of Zone 3 are AI, versus the 29% cohort baseline - and under-represented in Zone 4, where only 21% of companies are AI.

AI is over-represented in the high-growth zones

The distribution of AI companies across the four zones doesn't match the overall cohort. Within each zone, the AI share looks like this:

AI share within each zone vs. the 29% cohort baseline · Q1 2026



AI-native, high-confidence classification. Bars past the dashed line are over-represented relative to the cohort; bars short of it are under-represented.

Zone 3 is the most AI-heavy zone in the cohort. 42% of Zone 3 companies are AI, well above the cohort baseline. Zone 4 is the most AI-light zone. Only 21% of low-momentum operators are AI companies, well below the 29% baseline.

Within zones, AI trades margin for growth

In Zone 1 (Growth-first scalers), the AI median is 307% growth at –45% margin. The Non-AI median is 117% growth at –9% margin. AI Zone 1 companies grow 190 pp faster, but burn 36 pp more on EBITDA margin.

In Zone 3, pre-margin grower AI companies grew 80% at –165% margin. Non-AI grew 60% at –90% margin. The growth advantage compresses to 20 pp (down from 190 pp in Zone 1), but the margin gap widens to 75 pp (up from 36 pp in Zone 1). AI Zone 3 companies burn over 1.5x revenue.

In Zone 4 (low-momentum operators), growth is essentially flat for both (2% AI vs 5% Non-AI). The margin gap, however, is wide: AI burns 37 pp more (–50% vs –13%). When AI companies fall into Zone 4, they're failing on cost structure.

Zone	AI (growth, margin)	Non-AI (growth, margin)
● Zone 1. Growth-first scalers	307%, –45%	117%, –9%
● Zone 3. Pre-margin growers	80%, –165%	60%, –90%
● Zone 4. Low-momentum operators	2%, –50%	5%, –13%

Zone 2 AI sample is too small (N=6) to publish.

Sales & Marketing (S&M) spend intensity is higher in AI companies, in every zone

Looking at pooled sales and marketing spend data across the trailing four quarters (Note: Zone 2 didn't have a high enough N count for us to share):

Zone	AI S&M	Non-AI S&M	Delta
● Zone 1. Growth-first scalers	37% (N=119)	26% (N=191)	+11 pp
● Zone 3. Pre-margin growers	61% (N=118)	54% (N=195)	+7 pp
● Zone 4. Low-momentum operators	37% (N=145)	35% (N=439)	+2 pp

AI companies run higher S&M intensity at every zone. The biggest gap is in Zone 1, where AI companies spend 37% of revenue on S&M vs Non-AI companies at 26%. Inside Zone 1, AI and Non-AI have meaningfully different operating profiles.

What this means for investors

Three observations:

AI doesn't change which zone a company lands in. If you're benchmarking an AI portfolio company against zone medians, expect deeper margin burn at the same zone position. AI Zone 1 companies sit about 32 pp below the cohort margin median (-45% vs -13%).

The growth advantage attenuates as the zone gets harder. In Zone 1 (growth-first scalers), AI companies grow almost 3x faster than Non-AI. In Zone 3 (pre-margin growers), the growth gap shrinks. In Zone 4 (low-momentum), it disappears. AI doesn't rescue struggling positions through growth.

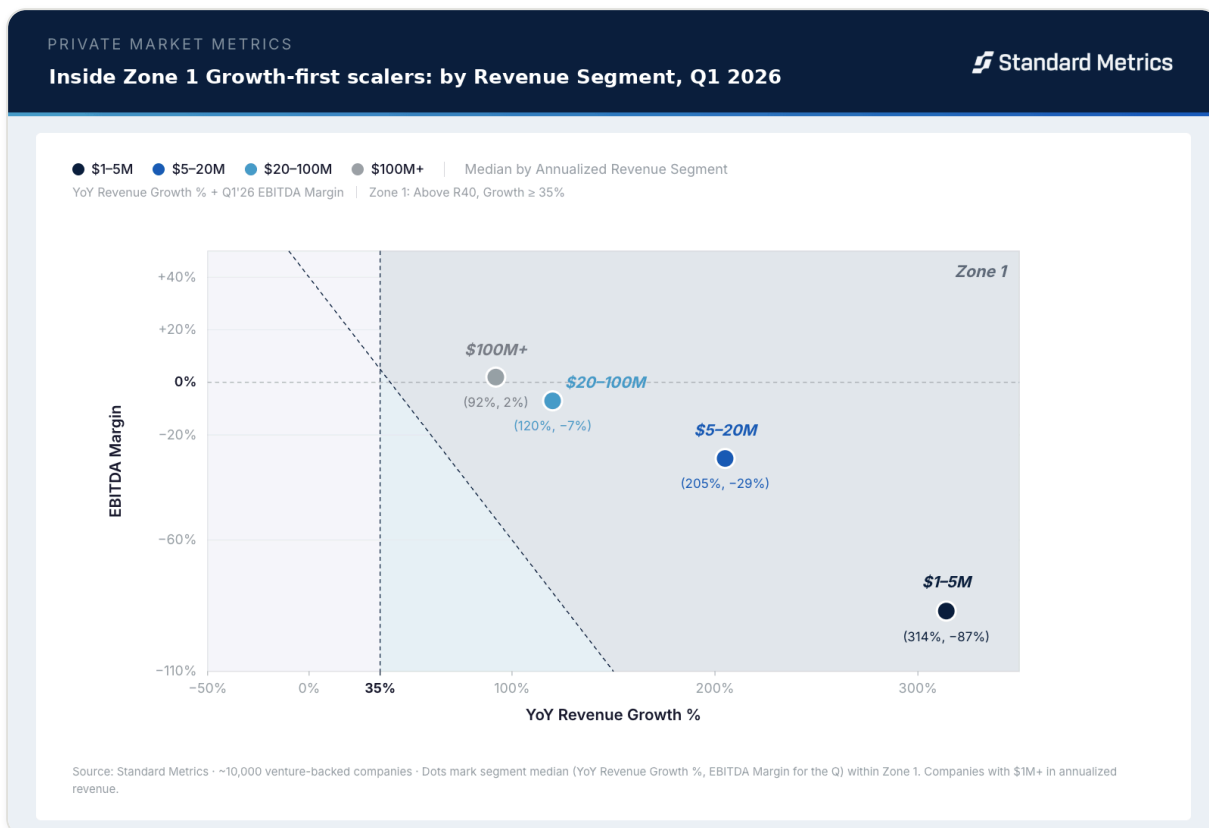
Zone 3 is where the AI concentration is most pronounced. Investors using R40 to read AI portfolios should expect a higher share of their companies in Zone 3 than the broader cohort would predict. That's not a problem signal on its own. It reflects how AI companies are choosing to operate at this point in the cycle.

04

Inside Zone 1 Growth-first scalers: scale buys margin, costs growth

TL;DR

Zone 1 looks different depending on where a company sits in it. The smallest companies (\$1–5M) are growing 300%+ while burning hard. The largest (\$100M+) are nearly breakeven and growing under 100%. The less obvious finding is how much Zone 1 membership churns: only 37% of Q1 2025 Zone 1 companies were still there a year later, and 60% of today's Zone 1 companies are new entrants. For investors, that means a company that just entered Zone 1 has roughly the same odds of staying as it does of falling all the way to Zone 4.



The trajectory

The four Zone 1 medians line up across the chart in a near-linear pattern, sloping from top-left to bottom-right:

Segment	Median growth	Median margin	R40 sum
\$1–5M	314%	–87%	227
\$5–20M	205%	–29%	176
\$20–100M	120%	–7%	113
\$100M+	92%	2%	93

Every segment clears Rule of 40 by a wide margin. The smallest segment (\$1–5M) clears by 187 points. The largest (\$100M+) clears by 53 points. At scale, growth slows, margin improves, and the R40 buffer compresses.

What "Zone 1" means depends on scale

A \$5M Zone 1 company isn't the same shape as a \$100M Zone 1 company. The smaller one is growing 300%+ while burning hard. The larger one is breakeven and growing under 100%. Both are above R40. Both are "growth-first scalers." But the portfolio implications are different.

The Zone 1 ceiling isn't growth, it's how much margin improvement comes naturally with scale. The \$100M+ segment is the demonstration of that ceiling: 92% growth at 2% margin is what mature Zone 1 looks like.

Zone 1 spends less on S&M and R&D to grow more

We also looked at Sales & Marketing (S&M) and Research & Development (R&D) spend efficiency across all Zone 1 companies. Because not all companies report S&M and R&D spend every quarter, we combined the trailing four quarters of data (Q2 2025 to Q1 2026) to get a large enough sample.

Metric	Zone 1 median	N	Zone 3 median	N
S&M as % of revenue	28.9%	310	57.2%	313
R&D Index <i>YoY growth ÷ R&D % of revenue</i>	5.5	109	1.4	121

Zone 1 spends roughly half as much on sales and marketing as Zone 3 (29% of revenue vs. 57%). Both zones are growing fast, but Zone 1 is more cost-efficient.

The R&D Index measures how much revenue growth a company generates per percentage point of revenue spent on R&D. Zone 1 companies produce about 5.5 percentage points of growth for every pp of revenue they put into R&D. Zone 3 produces 1.4. That's a 4x efficiency gap.

These findings still rely on the subset of the cohort that reports S&M and R&D. We're publishing what the reported sample shows. Worth a deeper look in a follow-up piece once spend-data coverage expands.

Zone 1 (Growth-first scalers) is fluid, not stable

The trajectory story above describes Zone 1 at one moment in time. The year-over-year transition data tells a different story: the membership of Zone 1 churns substantially.

Where Q1'25 Zone 1 went



Where Q1'26 Zone 1 came from



Thin end segments (Z2, 4% out / 3% in) omitted from labels for legibility.

1: Growth-first scalers
 2: Profitable operators
 3: Pre-margin growers
 4: Low-momentum operators

Of the 207 Zone 1 Growth-first scalers present in both Q1 2025 and Q1 2026:

- **37% stayed in Zone 1.** Less than half retained the growth-first scaler profile a year later.
- **36% fell to Zone 4.** The single biggest transition out of Zone 1 was a full collapse: they lost both their growth velocity (dropped below 35%) and their R40 status (sum dropped below 40) at once.
- **23% fell to Zone 3.** The companies kept the growth velocity but margins worsened enough that the R40 sum no longer cleared.
- **4% moved to Zone 2.** They traded growth for margin discipline and stayed above R40.

Looking at it from the other direction: of the 192 companies that were in Zone 1 in Q1 2026, only 40% had been in Zone 1 a year earlier. 60% of Q1 2026 Zone 1 companies are new arrivals. 30% climbed from Zone 4, 27% climbed from Zone 3, and 3% came from Zone 2.

This is the most counterintuitive transition finding. Zone 1 may look like a stable cohort in the snapshot data, but it isn't. Companies cycle in and out at a meaningfully higher rate than the other zones (Zone 4 retention is 75%, Zone 3 is 44%, Zone 2 is 47%).

The implication for investors: a portfolio company that just entered Zone 1 has roughly the same probability of being in Zone 1 a year from now as it does of having fallen to Zone 4.

05

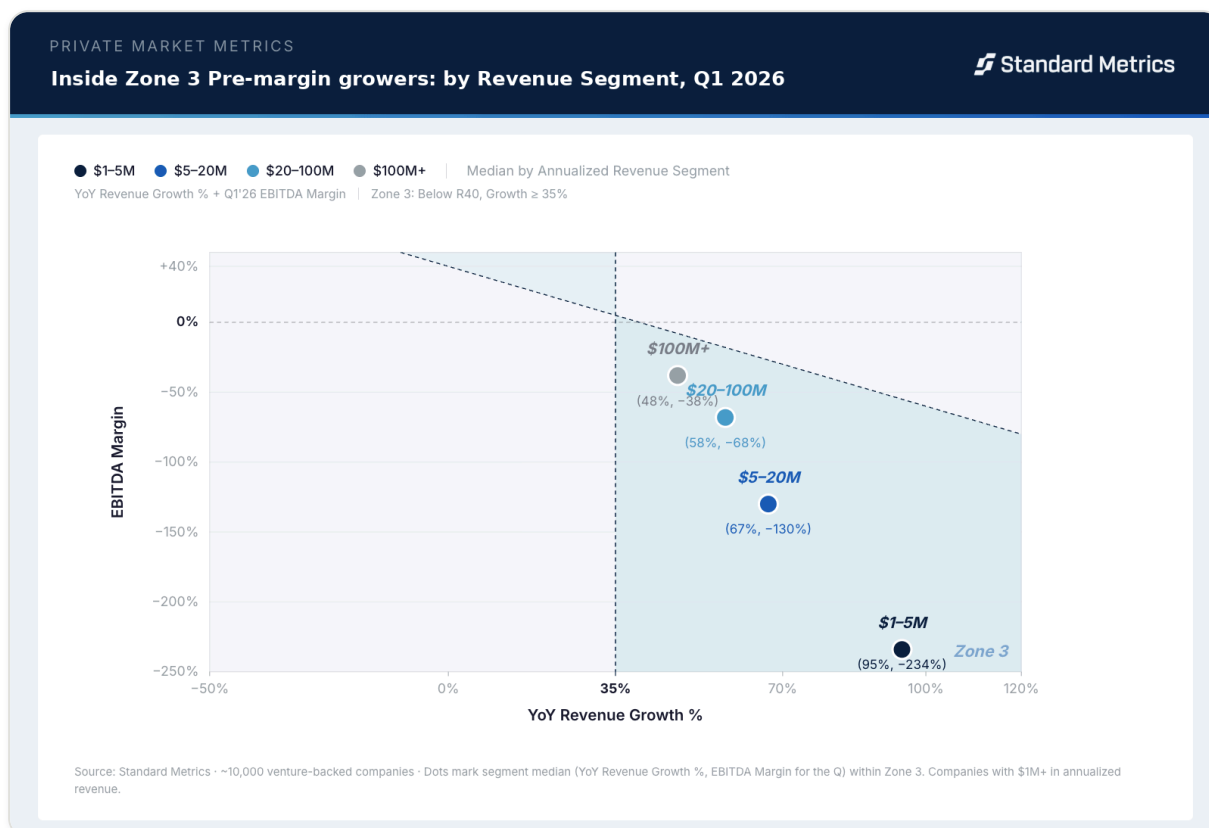
Inside Zone 3 Pre-margin growers: a different operating model

TL;DR

Zone 3 companies (pre-margin growers) follow the same trajectory as Zone 1 as they scale: growth slows, margin improves. But they're on a steeper curve with deeper burn.

The smallest Zone 3 companies burn more than twice their revenue, 147 points behind their Zone 1 counterparts at that size. The gap narrows sharply with scale, though: Zone 3's margin gap to Zone 1 shrinks to 40 points at \$100M+, still burning, but converging.

The more interesting finding is what happens to Zone 3 companies over time. The perhaps intuitive read that Zone 3 is a development phase (high-growth burners on their way to becoming Zone 1 winners) only fits about a quarter of the companies in it. Another third lose their growth velocity and fall to Zone 4. The rest, the largest single group, stay put. Zone 3 is less a waiting room and more a fork in the road.



The trajectory across segments

The four Zone 3 medians form the same diagonal pattern as Zone 1, with growth compressing and margin improving as scale increases:

Segment	Median growth	Median margin	R40 sum
\$1–5M	95%	–234%	–139
\$5–20M	67%	–130%	–63
\$20–100M	58%	–68%	–10
\$100M+	48%	–38%	9

Growth slows by 47 pp (95% → 48%) from smallest to largest segment. Margin improves by 196 points (–234% → –38%). The compression in growth is gentler than Zone 1's (47 pp vs 222 pp), and the margin improvement is steeper (196 pp vs 89 pp). Zone 3 has further to travel on margin as companies scale.

The \$100M+ Zone 3 company is closer to clearing R40 than its smaller-segment peers. 48% growth at –38% margin sums to 9, short of clearing R40 by 31 points. The smallest segments are far from the threshold.

Zone 3 splits three ways: stay, graduate, fall

The year-over-year transition data (Q1 2025 to Q1 2026) shows where Zone 3 companies actually go. Of the 209 Zone 3 companies in the panel:

Where Zone 3 goes · 209 companies, Q1 2025 → Q1 2026



Zone 2 receives 0.5% (one company); the balanced path is essentially closed from Zone 3.

1: Growth-first scalars
 2: Profitable operators
 3: Pre-margin growers
 4: Low-momentum operators

- **44% stayed in Zone 3.** The largest single outcome.
- **24% graduated to Zone 1.** Crossed above R40 while still growing fast.
- **32% fell to Zone 4.** Growth dropped below 35%, and margins didn't improve enough to clear R40.
- **0.5% (one company) moved to Zone 2.** The balanced path is essentially closed from Zone 3.

The "development phase" reading of Zone 3 holds for about a quarter of the cohort. Another quarter of these companies are on a meaningfully different trajectory, losing growth velocity without finding margin discipline. The remaining ~44% are persisting in the high-growth, deep-burn operating model that defines Zone 3.

For an investor looking at a Zone 3 portfolio company, the relevant question isn't "will this company become Zone 1." It's "which of the three Zone 3 paths is this company on." The data doesn't tell us what predicts which path, but it tells us staying put is the most likely of the three.

06

A teaser into the Rule of X: a different lens for scaled companies

But all this analysis rests on the idea that the Rule of 40 is the right framework for evaluating companies. In 2024, Bessemer argued it wasn't, at least not for companies with \$100M+ in revenue.

As we shared in the intro of this report, Bessemer argued that growth didn't have the same value as margin for scaled software companies. Instead, the firm suggested it was worth 2-3x more. So they proposed the Rule of X: weigh growth first, then add margin.

While writing this report, we applied the Rule of X (or a 2x multiplier on growth) to the 280 companies in our dataset with \$100M+ in annualized revenue. The pass rate of companies clearing the Rule of 40 threshold jumped from 36% to 56%, almost completely clearing out Zone 3 (30 of 34 companies moved up from Zone 3 to Zone 1).

COMING SOON

We'll dive deeper into how the Rule of X shakes out in our dataset in a follow-up blog in the upcoming weeks: which companies move, which don't, and what that means for how investors should be evaluating their scaled portfolio companies.

CLOSING

Observations worth taking away

Definitions: We're using the following framework as we discuss these observations. Zone 1, or growth-first scalers, clear R40 (growth + margin ≥ 40) with growth $\geq 35\%$. Zone 2, or profitable operators, also clear R40, but through margin rather than growth, since their growth rate is below 35%. Zone 3, or pre-margin growers, grow fast ($\geq 35\%$) but don't clear R40 because of deep margin burn. Zone 4, or low-momentum operators, grow slowly (below 35%) and also fall short of R40.

One: When private companies clear R40, they almost always do it through growth, not margin discipline. Of the companies that clear R40, 89% do it through growth (Zone 1) versus just 11% through margin balance (Zone 2). The "profitable operators" profile is rare across the entire cohort too, just 3%, likely because Standard Metrics' data skews VC-backed rather than PE-owned.

Two: AI companies cluster in the high-growth zones and burn deeper within them. They're over-represented in Zone 1 (33% AI share vs 29% baseline) and especially Zone 3 (42%), and under-represented in Zone 4 (21%). And within each zone, AI companies run hotter than non-AI peers on both axes: faster growth, deeper burn.

Three: The private-market reset was real, but nowhere near as severe as the public market's. Battery Ventures found public cloud's high-growth zones nearly emptied out by [their March 2024 update](#) (14 companies down to 1, since 2021). Private Zone 1 had fallen from 38% to 21% of the cohort over that same window, a meaningful pullback but a long way from emptying, and it's since recovered further, to 25% by Q1 2026.

Four: Zone 3 looks like a feeder into Zone 1. For most companies, it isn't. Only about a quarter of Zone 3 companies graduate to Zone 1 within a year. 44% just stay in Zone 3, growing fast and burning hard, indefinitely. Zone 3 is less a waiting room and more a fork in the road.

Five: Zone 1 looks stable in a snapshot, but the membership churns fast. Only 37% of Zone 1 companies stay in Zone 1 a year later. Zone 4, by contrast, is genuinely sticky: 75% of Zone 4 companies stay put. A newly-arrived Zone 1 company has roughly the same odds of staying as it does of falling all the way to Zone 4.

Six: Inside Zone 1, growth doesn't come from spending more. The growth-first scalers spend roughly half as much on sales and marketing, as a share of revenue, as Zone 3 companies, despite growing faster. Capital efficiency, not just velocity, defines this zone.

We found that the framework Battery built for public cloud companies works in private markets, but the distribution it sorts is different. Public-market shifts don't translate one-to-one. The private-market data was never the data the framework was built on, but it's the data investors making private-market decisions should be looking at.

We're publishing this analysis, the underlying methodology, and our Q1 2026 cohort medians so others can compare.

WE'D LOVE YOUR FEEDBACK

What resonated? What didn't? What would you like to see in our next report? If you're a current customer please reach out to your CSM with feedback or questions. If not, learn more about Global Benchmarking or get in touch at benchmarking@standardmetrics.io.

APPENDIX

Methodology

Sample

This report summarizes data from over 10,000 anonymized startups that report financial data to their investors through Standard Metrics. Companies control their own data on Standard Metrics and can opt out of inclusion in anonymous benchmarking at any time.

Companies are categorized into annualized revenue segments (\$1–5M, \$5–20M, \$20–100M, \$100M+) based on their annualized revenue as of each quarter, so a company can move between segments as it grows (or shrinks). We excluded companies with under \$1M in annualized revenue, as R40 is a less relevant metric for pre-seed and seed stage companies. For the Q1 2026 cohort, 1,377 companies met these inclusion criteria and had both reported financials and \$1M+ in annualized revenue.

Key metrics

YoY (year-over-year) growth compares the same quarter to the prior year (e.g., Q1 2026 vs Q1 2025). **EBITDA margin** is quarterly EBITDA divided by quarterly revenue. **Median** refers to the 50th percentile of the distribution.

Rule of 40 framework

The Rule of 40 states that a company's YoY revenue growth rate plus its EBITDA margin should equal at least 40%. This report uses the four-zone framework introduced by Battery Ventures in 2019, adapted for private-market data:

- **Zone 1 (Growth-first scalers):** growth \geq 35% and growth + margin \geq 40
- **Zone 2 (Profitable operators):** growth $<$ 35% and growth + margin \geq 40
- **Zone 3 (Pre-margin growers):** growth \geq 35% and growth + margin $<$ 40
- **Zone 4 (Low-momentum operators):** growth $<$ 35% and growth + margin $<$ 40

The 40% Rule of 40 threshold follows Brad Feld's 2015 convention. The 35% growth threshold is the median YoY revenue growth in our Q1 2026 cohort of companies with \$1M+ in annualized revenue. Splitting at the median gives a natural divide between the faster and slower half of the cohort. When we look at historical quarters, we hold the 35% growth threshold constant so zones remain comparable across time.

Rule of X framework

The Rule of X, introduced by Bessemer Venture Partners in 2024, weights growth more heavily than margin: $n \times \text{growth} + \text{margin} \geq 40$, where multiplier n is typically 2-3x depending on the business. Bessemer's analysis of public cloud valuations found growth contributes two to three times more to enterprise value than free cash flow margin for high-growth software companies at scale. We apply Rule of X to the \$100M+ segment (where Bessemer designed it to apply) and keep the same 35% growth threshold for Zone 1 / Zone 2 and Zone 3 / Zone 4 splits, so only the diagonal R40 line moves between the two frameworks.

AI classification

AI classification was determined through data enrichment from Parallel Web Services, which categorizes each company into one of: AI native application, AI native services, AI infrastructure, AI enabled SaaS, or AI enabled robotics. For this report, we classified AI native application, AI native services, and AI infrastructure as AI companies. AI enabled SaaS (companies whose core business isn't AI but who have integrated AI features) and AI enabled robotics were excluded. We used only enrichment records with high-confidence classification. Classification is applied at the company level, not the company-quarter level. A company classified as AI stays classified as AI across all quarters it appears in the dataset. This matters for the AI share over time analysis, which holds classification constant while cohort composition shifts.

Zone transitions

Year-over-year zone transitions are computed on a panel of companies present in both Q1 2025 and Q1 2026 (N = 942). This excludes 322 companies present in Q1 2025 but not Q1 2026 (drop-outs distributed roughly evenly across zones) and 435 newcomers that entered the \$1M+ cohort between

quarters. Each company's Q1 2025 zone is compared to its Q1 2026 zone, and transition rates are reported as row percentages (i.e., for each starting zone, the share of companies that ended up in each destination zone).

Sample composition

The underlying composition of company data on Standard Metrics shifts over time as companies join or leave the platform (e.g., IPO, M&A, shutdown, new firm onboarding). For charts, N represents the total number of companies represented in the most recent period (Q1 2026 unless otherwise noted). Data points with fewer than 30 companies are excluded from all charts. For metrics with sparse reporting (e.g., S&M and R&D spend intensity), we pool data across the trailing four quarters (Q2 2025 to Q1 2026) to reach adequate sample size while still reflecting current operating conditions.

Currency

For companies that report in non-US currencies, all values are converted to USD using constant currency rates so fluctuations in foreign exchange don't distort growth or efficiency metrics over time.