Annual Recurring Revenue (ARR)
Metric Standards Document
(Version 1.0 - January 10, 2023)

Metric Name: Annual Recurring Revenue (ARR)

Alternative Metric Name(s): N/A

Annual Recurring Revenue Overview

Definition: Annual Recurring Revenue (ARR)

Annual Recurring Revenue (ARR) is recurring revenue, as defined by your revenue recognition policy, calculated on an annualized basis. ARR is the sum of subscription recurring revenue on an annualized basis. ARR should not include one-time fees or professional services even if they are recurring.

ARR does not include contracted but not yet live ARR, and does not include known, but not yet recognized churned or down-sell ARR. See the Contracted ARR standard for its definition.

Many companies will use *Monthly Recurring Revenue (MRR) x 12* to calculate Annual Recurring Revenue. This calculation method is discussed later in this standards document.

Business Value and Insights: Annual Recurring Revenue (ARR)

ARR is a top operating metric for a SaaS business to monitor. Changes in ARR provides visibility into the health of any SaaS business.

Investors for both private and public SaaS companies use a multiple of ARR as one primary calculation component for company valuation.

An important facet of ARR is that it is a measure *at a point in time* – much like a Balance Sheet item, as opposed to an Income Statement metric like Revenue which is calculated over a period of time. That said, ARR is an accurate measure for the current size of a SaaS business.

Annual Recurring Revenue (ARR) - Calculation

Calculation Formula:

ARR = (MRR[1] x 12)

[1] MRR is the most recent monthly recurring revenue

Data Inputs Required: Annual Recurring Revenue (ARR)

Data Input #1: Monthly Recurring Revenue (MRR) from last month.

Calculation Timing:

ARR should be calculated each month.

Evaluating ARR trends between fiscal accounting periods, including monthly, quarterly and annually is critical to calculating “period over period” ARR growth rates.

In many cases it’s helpful to look at the growth rates over the same quarter in the previous year (period over period), as well as growth over the immediately preceding quarter (sequential).

Annual Recurring Revenue (ARR) - Considerations and Nuances

Nuances to Consider:

#1: CARR vs ARR

Annual Recurring Revenue (ARR) does not factor in future events, known or unknown including new deals closed but not yet generating revenue which is included in the CARR metric standard. ARR does not include expected churn, expected down-sells or expected up-sells.

#2: Bookings vs ARR

Bookings does not have a standard definition but generally refers to the amount of new business closed in an accounting period. Bookings can sometimes include the total contracted ARR of multi-year agreements, professional services revenue and other non recurring commitments.

ARR should not factor in any non recurring, one time revenue events such as professional services.

#3 : ARR in multi-year agreements

If multi-year agreements are used, the amount contributed to ARR should be only the latest month's MRR x 12, not the future value of contracted ARR beyond the current month.

#4 : Usage-Based Pricing impact on ARR

The revenue associated with usage based pricing that exceeds committed minimums (overages) should not be part of ARR - regardless of the overage being invoiced.

Invoiced amounts over the subscription agreement should not be considered as ARR.

If there is no contracted recurring revenue minimum commitment (subscription agreement) for Usage-Based pricing utilization models, no ARR is present

Companies that primarily use a Usage-Based Pricing model and not a subscription with a minimum annual commitment will not find as much value in the ARR metric.

#5: When to include churned and down-sell ARR in ARR

ARR should be reduced by churned ARR in the month the down-sell or churn contractually occurs. Churned ARR should not be deducted from ARR upon learning about known churn in the future. Churned ARR should be deducted in the same month the contract expires and/or agreement is not renewed.

#6: Treatment of customers on monthly versus annual agreements

This is a topic of great debate and the SaaS Metrics Standards Board has not taken an official position on this question.

Calculating Contracted Annual Recurring Revenue (CARR) and Annual Recurring Revenue (ARR) is one way to differentiate between those customers on an annual or longer agreement that provides increased certainty of the future MRR over the agreement period.

Sample Calculations: Annual Recurring Revenue (ARR)

Sample Calculation #1: Annual Calculation at end of Fiscal Year ending Dec 31, 2022

List of Input Values:

MRR (December, 2021): $833,333
Committed ARR not yet live on December 31, 2022: $500,000
Known future Churn or Downsell ARR on December 31, 2022: $300,000

Calculation Formula:

($833,333 x 12)[1] = $10,000,000 ARR

[1]No future known events, including churn or new contracts signed but not yet in production are included

Sample Calculation #2: Calculation at end of Fiscal Month - but not end of Fiscal year

List of Input Values:

MRR (Sep 21'): $750,000
Committed ARR not live by September 30, 2022: $150,000
Known future Churn or Downsell ARR on September 30, 2022: $50,000

Calculation Formula:

($750,000 x 12)[1] = $9,000,000

[1]No future but not yet in production ARR or known down-sell or churn is used in this calculation

Annual Recurring Revenue (ARR) - Links to related standards

Contracted Annual Recurring Revenue (CARR) Standards: [Click Here]