How Public SaaS Companies Report

Annual Recurring Revenue (ARR)

Research study by

ORDWAY

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EXECUTIVE SUMMARY

SCOPE OF RESEARCH STUDY

To gain insights into how publicly traded companies report on and define ARR, Ordway conducted an analysis of financial disclosures from companies listed on US capital markets.

In total, we reviewed 136 actively listed SaaS, cloud, and fintech providers on the NYSE and NASDAQ. The analysis included US-based companies as well as foreign issuers.

We started with the BVP Nasdaq Emerging Cloud Index, which contained 68 companies at the time. We doubled the sample size by adding another 68 companies that we thought would provide us with a more diverse representation of ARR definitions in formulas. We wanted to include companies with a more diverse range of revenue streams, pricing strategies, and distribution channels, beyond the traditional "subscription" business models of the early SaaS leaders.

The scope of our analysis was limited. We did not review all the investor filings and materials available. Instead, we focused on the most recent two annual reports (e.g. 10-K or 20-F) filed in 2021-2023.

For those SaaS and cloud providers where there was no reference to ARR in the annual report, we also reviewed the most recent quarterly results announcements, quarterly earnings calls, and investor presentations.

STUDY FIRMOGRAPHICS

SaaS and Cloud Providers

- 136 Total
- 67 from BVP Nasdaq Index
- 69 selected by Ordway

Exchange Listing

- 61 NYSE
- 75 NASDAQ

Documents Reviewed

- Annual SEC filings – 10-K or 20-F (past 2 years) as well as S1 registrations (if no annual report available)
- Quarterly earnings transcripts (past quarter)
- Investor presentation (most recent)

HOW PUBLIC SAAS COMPANIES REPORT ON ARR

PUBLIC SAAS COMPANIES USE OF ARR

ONLY 30% REPORT ARR TO INVESTORS

In the private markets ARR is king, driving everything from market valuations to executive compensation. Post IPO, ARR remains important, but is not as consistently reported on as a key metric to investors. Of the 136 public companies reviewed:

Use of ARR	Count	Percentage	Description of Usage
ARR was mentioned	82 of 136	60%	Referenced ARR (or a variant) in their investor filings. ARR is referenced in a variety of contexts including key business metrics, total addressable market, executive compensation, and credit arrangements.
ARR was defined	69 of 136	50%	Sometimes ARR is only referenced in the context of calculations of other key business metrics. For example, about 25 companies only mentioned ARR in the context of calculating Net Revenue Retention or tracking the number of accounts with greater than $100K or $1M ARR.
ARR results reported	40 of 136	29%	Companies that referenced ARR and reported it as a key business metric in the Management's Disclosure & Analysis section of their annual report. These organizations also reported annual ARR results for the past few fiscal years.

SOME USE ACV

It is also interesting to note that ACV (Annualized Contract Value) was referenced in investor communications by 17 of the 136 companies. ACV calculations typically include all revenue, not just recurring. Nonetheless, it was used in investor disclosures with a similar purpose to ARR. Of the 17 companies that referenced ACV, 9 also mentioned ARR.

HOW PUBLIC SAAS COMPANIES REPORT ON ARR

ARR DEFINITIONS VARY

PUBLIC SAAS COMPANIES HAVE 11+ DIFFERENT POLICY ELECTIONS

The level of detail disclosed about ARR varied widely with some organizations sharing only a sentence and others publishing several paragraphs. However, 55 of the 68 companies that provided a definition for ARR had adopted some unique different policy or formula. For public SaaS companies ARR is rarely simple calculation of monthly price x 12. The policy elections we identified fall into 11 categories as outlined below.

Variable	Policy Elections	Description
Customer Segments	Include/exclude • Consumer • Small business • Middle market • Enterprise	Just because a customer may have a recurring revenue contract does not mean it is included in ARR calculations. Some SaaS companies purposefully excluded consumer or small business segments from ARR reporting due to the higher churn.
Contract Lengths	Include/exclude • Monthly plans • Paid trials • < 12 Month contracts	Some include monthly, pay-as-you-go plans in ARR calculations while other SaaS providers only include customers with formal contracts of 12 months in length or greater.
Reporting Start Date	Start at • Booking date • Contract effective date • Go-live date • Initial revenue recognition	Reporting does not always map to the start dates of a customer contract. Many providers delay reporting ARR from new business until it the customer is live and implemented.
Reporting End Date	End at • Notification of cancel • Contract end date • Renewal grace period end	ARR reporting does not necessarily stop when a contract expires. Some providers extend reporting of ARR past contract end-dates for anticipated late renewals.
Distribution Channels	Include/exclude • Direct sales • 3rd party channels	Some include recurring revenue from generated through third-party distribution channels while others only include ARR from direct sales efforts.

HOW PUBLIC SAAS COMPANIES REPORT ON ARR

Variable	Policy Elections	Description
Product Lifecycle	Include/exclude • Legacy products • Beta products	Just because a product line generates recurring revenue does not mean it is included in ARR. Some SaaS providers excluded products that are considered “legacy” or approaching end-of-life.
Pricing Models	Include/exclude • Subscription pricing • Usage-based pricing • Percentage pricing	Many providers include usage-based pricing in ARR even though the revenue profile can vary month-to-month. Very few providers with percentage pricing (generated, for example, by taking a small percentage of the dollar value of financial transactions) included the associated fees in ARR.
Pricing Changes	Apply to ARR • Immediately, all customers • As customers renew	Some providers apply pricing changes to all customers' ARR once the new fees are announced. Others update ARR as each customer’s contracts renew and pricing becomes effective.
Deployment Model	Include/exclude • Term license • Perpetual license • Maintenance contracts	Products do not need to be run on a cloud platform, nor do they need to be delivered “as-a-service” to be included in ARR. Recurring revenue generated from “self-managed” technology run in a private cloud or “on-premise” is often included in ARR. Maintenance fees associated with perpetual licenses are also reported as ARR.
Professional Services	Include/exclude • Managed services • Premium customer support • Other professional services	Products do not need to be technology-centric to be included in ARR. A handful of organizations included lower-margin, “people-based” services such as professional services, managed services, and premium customer support programs in ARR.
Foreign Exchange	Report ARR using • Constant currency • Adjusted rate	Some present ARR in constant currency. Others adjust FX annually or quarterly.

THREE WAYS TO CALCULATE ARR

Methods for calculating ARR vary amongst public SaaS and cloud companies. We identified three common models – each of which rely on calculating a monthly run rate first (e.g. MRR), which is then annualized.

Model 1 "Assigned" ARR	**Contracted monthly price x 12 = ARR** In the first model, MRR is "assigned" to each customer. Finance reviews the current monthly price for products with recurring revenue in the contract and then annualizes it. For example, suppose a SaaS customer had a 12-month contract with pricing of \$100 per user per month for 20 users. The current MRR is \$2,000 (\$100 x 20), resulting in an ARR of \$24,000 (\$2,000 x 12).
Model 2 "Average" ARR	**TCV / months in contract x 12 = ARR** In the second model, an "average" monthly fee is annualized. The average monthly fee is calculated by dividing the Total Contract Value (TCV) by the number of contract months. For example, a 24-month contract in which the customer pays \$1,000 per month for the first year and \$2,000 per month for the second year along with a one-time implementation fee of \$6,000. The Total Contract Value would be \$42,000 (\$1,000 x 12 + \$2,000 x 12 + \$6,000). The average monthly fee would be \$1750, which results in an ARR of \$21,000 (\$1,750 x 12).
Model 3 "Actuals" ARR	**Last month's GAAP revenue x 12 = ARR** In the third model, a monthly run rate is computed based on the company's GAAP accounting for the prior month ("actuals"). Once the MRR or run rate is determined, it is multiplied by 12 to arrive at ARR. For example, suppose a cloud provider with usage-based pricing generated \$20,505 in GAAP revenue last month. The ARR would be \$246,060 (\$20,505 x 12).

It is also worth noting that we have simplified the formulas in the above explanation. Within each of the three approaches, there can be several variations in how the formulas are applied.

HAVE WE OUTGROWN A ONE-SIZE-FITS-ALL MODEL FOR ARR?

As the SaaS and cloud industry has grown over the past two decades, the scope of business models has grown increasingly diverse.

Product Lines	Technology providers are not only bundling hardware and software into as-a-Service offerings they are also generating revenue from processing credit card payments, interest on small business loans, and commissions from third-party developers who sell apps in their marketplaces.
Pricing Models	No longer are SaaS applications being priced simply on a per-user, per-month basis, today's pricing is based upon consumption metrics like GB of data transferred or the number of API calls executed. Some are pricing based upon a percentage of the dollar value of gross merchandise value processed or the value of assets under management.
Contract Structures	SaaS providers prefer annual or multi-year contracts, but many offer month-to-month plans as a new customer acquisition strategy. Companies with usage-based pricing have different contract structures such as capacity agreements that include a fixed number of prepaid credits that can be redeemed for services.
Deployment Models	Most software is delivered as-a-Service in the vendor's cloud. However, a notable number of the larger providers also offer a self-managed model that the customer runs and operates themselves. There are also a meaningful number of legacy perpetual licenses still in use along with the associated maintenance contracts.

Has the SaaS and cloud industry reached the point where it is simply too diverse for a simple, one-size-fits-all model for projecting recurring revenue? It would seem a better approach, companies need to select the method that best represents their product set, pricing strategies, contract structures, and deployment models.

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