Annual Recurring Revenue (ARR)

One of the key metrics for SaaS companies such as Agillic is the Annual Recurring Revenue as it expresses the recurring value of the company's subscriptions.

Annual Recurring Revenue (ARR) is one of the key figures and value drivers when looking at the performance of a Software as a Service (SaaS) company such as Agillic, because it is the foundation for evaluating the potential recurring revenue a SaaS company can generate over time.

Equity analysts often apply a multiple to ARR in order to estimate a value of stock exchange listed SaaS companies.

A SaaS company is defined as a company that delivers access to a centrally hosted software model on subscription.

In general, ARR expresses the revenue from subscriptions the SaaS company can generate in a 12 months period from its portfolio of current client agreements. ARR is important because it expresses the recurring value of the company's subscriptions, and as long as these subscriptions are not churned they will continue to generate revenue year after year.

This also means that if the SaaS company's ARR is increasing, the revenue that will be generated year after year is increasing.

ARR will in general increase when the SaaS company's subscriptions with existing clients are uplifted and when the company sells new subscriptions. Similarly, ARR will decrease when subscriptions are churned, i.e. not prolonged. Hence, as long as the total value-increase from existing subscriptions and new agreements exceed the value of the agreements churned, ARR will increase and the revenue generated year after year will increase.

As long as the SaaS company can continue to increase its ARR there is – in theory – no limit for the accumulated future revenue. That said, all agreements are expected to churn at some point of time but as long as the value increase exceeds the value of churned agreements total ARR will increase.

Factors impacting the development of Annual Recurring Revenue (ARR)

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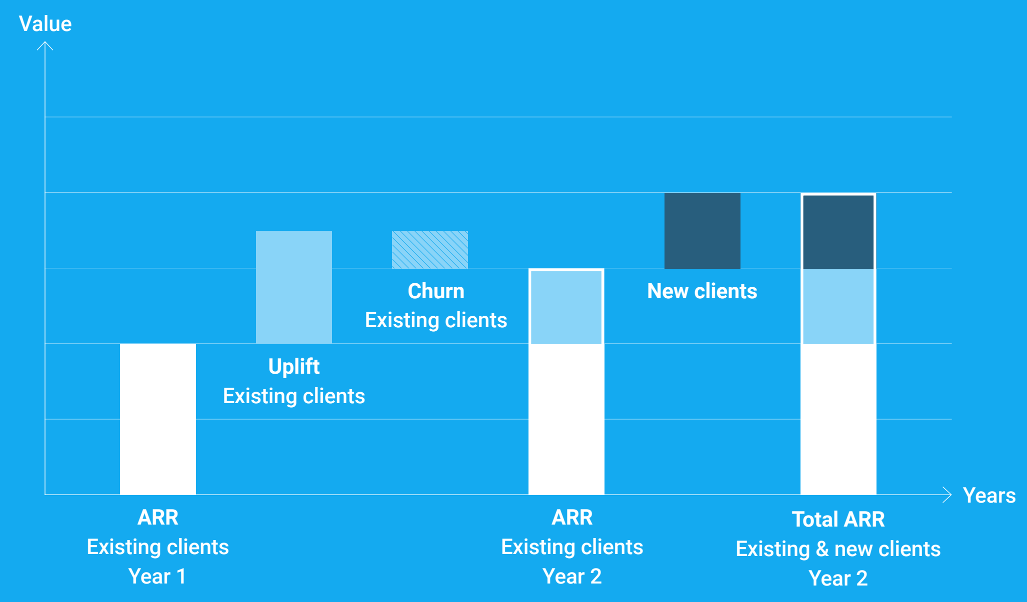

The increase in Annual Recurring Revenue (ARR) from year 1 to year 2 can be summarised as follows:

+ Annual Recurring Revenue (ARR) end of year 1 (value of all existing client agreements)
+ increase in subscriptions and transactions from existing clients
- churn of existing clients
+ agreements with new clients

= Annual Recurring Revenue (ARR) end of year 2