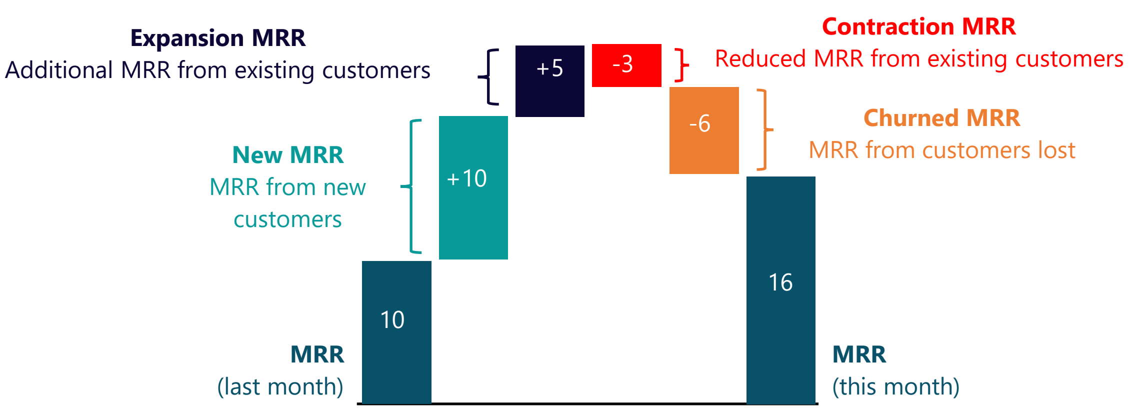
Overview

Clare Capital Tech Insights 153 - SaaS Quick Ratio - 20200228

The SaaS Quick Ratio is effective for examining the efficiency of a company's net Monthly Recurring Revenue (MRR) growth.



SaaS Quick Ratio (QR)

$$\frac{\text{New MRR} + \text{Expansion MRR}}{\text{Churned MRR} + \text{Contraction MRR}}$$

Measures growth efficiency.

A low value suggests that new revenue is working hard to replace lost revenue.

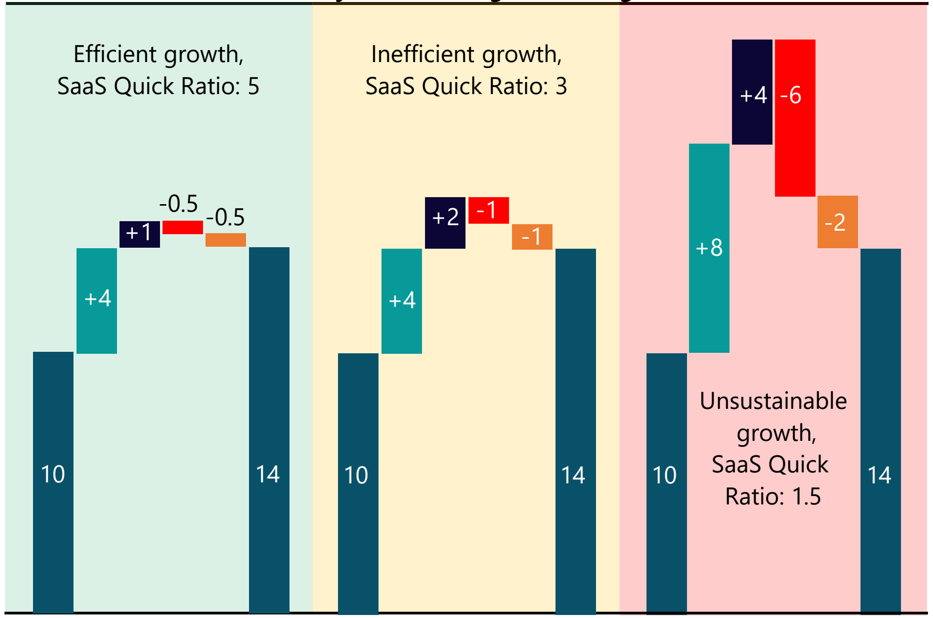
A high value suggests that revenue growth is both high and stable.

QR ≥ 4, efficient growth

QR 2-4, inefficient growth due to churn

QR < 2, unsustainable growth, revenue gain barely outweighs churn

Three ways of achieving the same growth



SaaS Quick Ratio heat map - 6% monthly growth/100% annual growth

Expansion MRR \ New MRR	8.5%	8.0%	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%	4.5%	4.0%	Contraction MRR
4.0%	1.9	2.0	2.1	2.2	2.3	2.5	2.7	3.0	3.4	4.0	**2.0%**
3.8%	2.0	2.0	2.1	2.3	2.4	2.6	2.8	3.1	3.6	4.3	**1.8%**
3.6%	2.0	2.1	2.2	2.3	2.5	2.7	2.9	3.3	3.9	4.8	**1.6%**
3.4%	2.0	2.1	2.2	2.4	2.5	2.8	3.1	3.5	4.2	5.3	**1.4%**
3.2%	2.1	2.2	2.3	2.4	2.6	2.9	3.2	3.7	4.5	6.0	**1.2%**
3.0%	2.1	2.2	2.3	2.5	2.7	3.0	3.4	4.0	5.0	7.0	**1.0%**
2.8%	2.1	2.3	2.4	2.6	2.8	3.1	3.6	4.3	5.6	8.5	**0.8%**
2.6%	2.2	2.3	2.5	2.7	2.9	3.3	3.9	4.8	6.5	11.0	**0.6%**
2.4%	2.2	2.4	2.5	2.8	3.1	3.5	4.2	5.3	7.7	16.0	**0.4%**
2.2%	2.3	2.4	2.6	2.9	3.2	3.7	4.5	6.0	9.6	31.0	**0.2%**
Churned MRR	**4.5%**	**4.0%**	**3.5%**	**3.0%**	**2.5%**	**2.0%**	**1.5%**	**1.0%**	**0.5%**	**0.0%**	

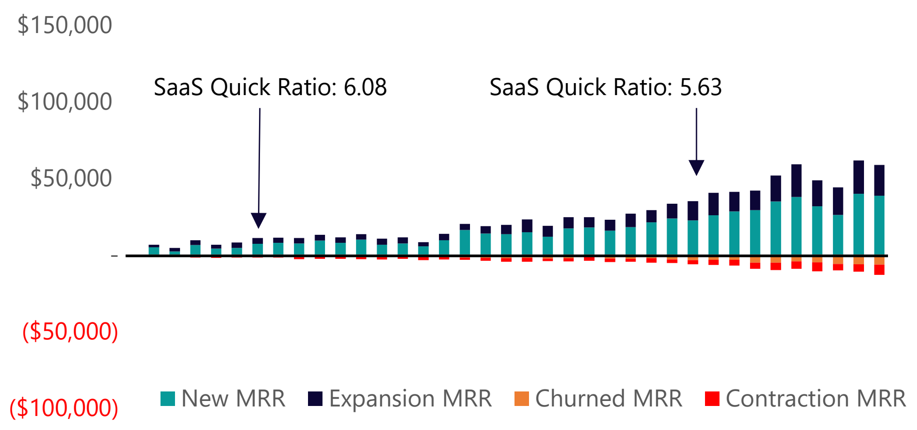
$$2.1 = \frac{8.5 + 2.8}{4.6 + 0.8}$$

$$4.2 = \frac{5.5 + 2.4}{1.5 + 0.4}$$

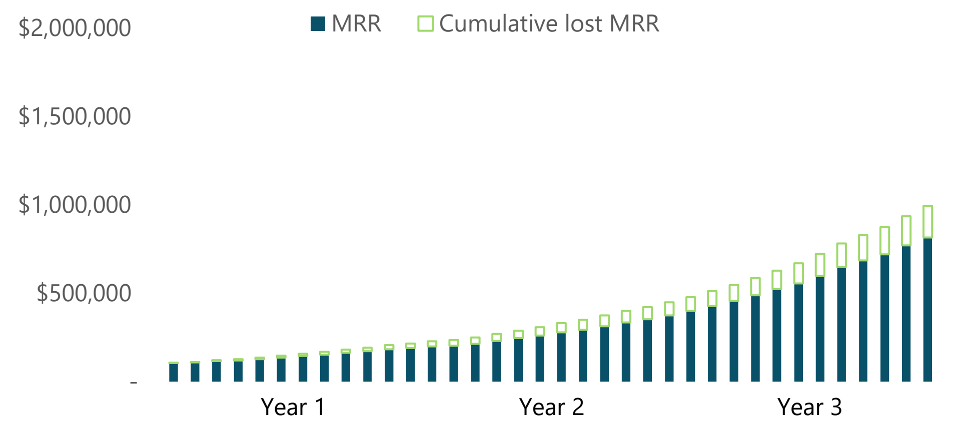
Two businesses that both have 6% Monthly Recurring Revenue (MRR) growth - MRR of $100,000 to $814,725 over three years

EFFICIENT BUSINESS: average SaaS Quick Ratio of 4.90

Monthly change in revenue

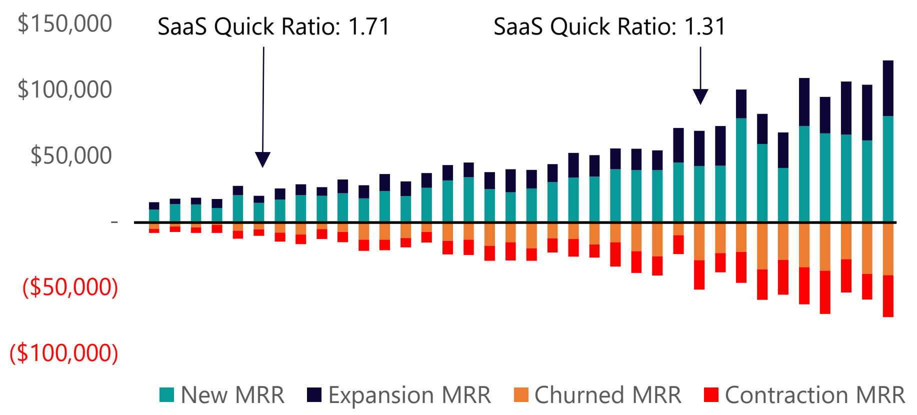


MRR and cumulative lost MRR

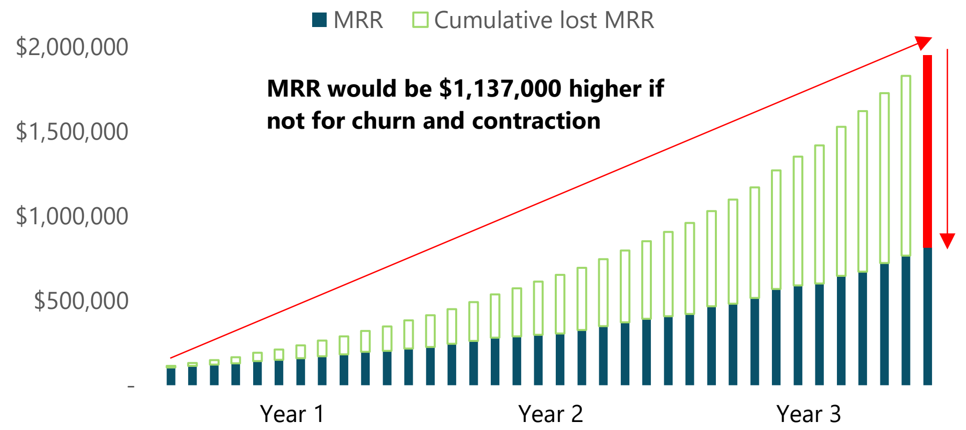


UNSUSTAINABLE BUSINESS: average SaaS Quick Ratio of 1.68

Monthly change in revenue



MRR and cumulative lost MRR



Note: The change in MRR in both scenarios is generated using a random normal distribution with a standard deviation of 20% of the change in each variable. Data is, therefore, randomly generated and is not intended to reflect a particular organisation.