Contracted Annual Recurring Revenue (CARR)
Metric Definition Standard Document

(Version .9 - December 5, 2022)

Contracted Annual Recurring Revenue (CARR) Overview

Definition: Contracted Annual Recurring Revenue (CARR)

Contracted Annual Recurring Revenue (CARR) is defined as contracted annual recurring revenue, whether in production or not yet in production.

Contracted ARR is not calculated using the same formula as Annual Recurring Revenue, and the two terms should not be used interchangeably.

Committed ARR is a term that is used synonymously with Contracted ARR (CARR).

Business Value: Contracted Annual Recurring Revenue (CARR)

Contracted ARR is one of the top metrics for a SaaS business to monitor. Change in CARR growth provides the clearest visibility into the health of a SaaS business.

Investors for both private and public SaaS companies place a Enterprise Value:Revenue multiple premium based upon the growth rate of Contract ARR, ARR and GAAP revenue.

One important facet of CARR 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 requires a duration of time. One can provide CARR at any particular point in time; Revenue metrics require a reference to a specific year, quarter, etc.

Page 2: Contracted Annual Recurring Revenue (CARR) - Calculation

Calculation Formula:

CARR = (MRR[1] x 12) + Contracted but not yet recognized ARR[2]

[1] MRR is the most recent recognized monthly recurring revenue from subscriptions
[2] Not yet recognized ARR is contracted but not yet in production and/or recognized as GAAP Revenue - thus not recognized in current period MRR

Data Inputs Required: Contracted Annual Recurring Revenue (CARR)

Data Input #1: Monthly Recurring Revenue (MRR) associated with a subscription from last month
Data Input #2: ARR contracted but not yet in production
~~Data Input #3: ARR known to be churning in the future, but not yet recognized~~

Recommended Calculation Timing: Contracted Annual Recurring Revenue (CARR)

Contracted ARR should be calculated monthly, or at a minimum quarterly.

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

Page 3: Contracted Annual Recurring Revenue (CARR) - Considerations and Nuances

Nuances to Consider:

Nuance #1: Bookings vs CARR

Bookings often include the total Contracted ARR included in multi-year agreements, professional services revenue and other non recurring commitments. Bookings do not have a common definition and should not be used interchangeably with Contracted ARR

CARR should only consider the amount of Annual Recurring Revenue and not factor in any non recurring revenue such as professional services, or variable usage such as one time overage revenue.

Nuance #2 : CARR in multi-year agreements

If multi-year agreements are used, the amount contributed to CARR should be only the contracted subscription revenue for one year forward.

When a multi-year agreement is in place with escalating annual subscription value every year, the CARR should be specific and align with the exact terms of the agreement as to the subscription value contracted for each year in a multi-year agreement.

Some multi-year agreements have subscription (price) escalation for each year - and only the amount of contracted ARR for each subscription year should be attributed to CARR.

Nuance #3 : Usage-Based Pricing impact on CARR

The revenue associated with usage based pricing that exceeds the annual contracted subscription amount should NOT be part of Contracted ARR - regardless of the overage being invoiced.

Invoiced amounts over the subscription agreement value should not be considered as part of CARR.

If there is no contracted minimum commitment (subscription) for Usage-Based pricing utilization models, no CARR 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 CARR metric.

Nuance #4: New or Net New ARR vs Contracted ARR.

Contracted ARR includes New ARR, Net New ARR and existing Contracted ARR.

New ARR only looks at the Contracted ARR from “new logos”.

Net New ARR = New Name Customer ARR + Expansion ARR - Churn ARR - Downsell ARR. Expansion and Downsell ARR is an incremental change from previous contracted ARR.

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

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

Page 4: Committed Annual Recurring Revenue (CARR) - Sample Calculations

Sample Calculation #1: Monthly Calculation at end of September, 2022

List of Input Values:

MRR (Sep 22’): $1,500,000
Contracted ARR not in production by September 30, 2022: $400,000

Calculation Formula:

($1,500,000 x 12) + $400,000 = $18,200,000 CARR

Sample Calculation #2: Annual Calculation at the end of Fiscal Year 22’

List of Input Values:

MRR (Dec 22’): $2,000,000
Contracted ARR not in production by December 31, 2022: $500,000

Calculation Formula:

($2,000,000 x 12) + $500,000 = $24,500,000 Contracted ARR (CARR)

Page 5: Committed Annual Recurring Revenue (CARR) - Links to reference materials

Annual Recurring Revenue Standard: Click here