ZAZEN TAX

SaaS Metrics Honestly

MRR, churn, NRR, CAC payback, LTV and the Rule of 40, computed the way an investor's analyst will recompute them.

Eight chapters, one worked company, and every figure checkable on the free tools.

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Contents

Arbor Metrics Ltd again: 200 customers at £200 a month, £40,000 MRR, 80 per cent gross margin. In a typical month it wins £1,800 of new MRR, expands £520, loses £160 to downgrades and £880 to churn. Every metric in this book comes off those five numbers, because every metric that matters does.

1 The waterfall is the ledger

Every SaaS metric is arithmetic on four movements: new, expansion, contraction, churn. Get those from the billing system and everything else is derived; type metrics by hand and the deck eventually disagrees with the ledger.

Arbor Metrics in a typical month: £1,800 new, £520 expansion, £160 contraction, £880 churn. Net new MRR is £1,280, which on a £40,000 base is 3.2 per cent monthly growth. Those two numbers, net new and the rate, are the company's pulse.

The movement	A typical month
New business MRR	£1,800
Expansion MRR	£520
Contraction MRR	£160
Churned MRR	£880
Net new MRR	**£1,280**

The MRR Bridge Calculator and the SaaS Metrics workbook both start here, and the workbook chains twelve months so every derived figure updates when one movement changes. That chaining is the whole discipline of this book.

2 NRR and GRR, annualised properly

Net revenue retention asks: if we never signed another logo, what happens to the revenue we have? Gross revenue retention asks the same with expansion taken away, which is why it is the harsher and more honest number.

Arbor Metrics keeps £39,480 of a £40,000 opening base after churn and contraction, with £520 of expansion added back: NRR of 98.7 per cent monthly. Without expansion, GRR is 97.4 per cent monthly.

The trap is annualising. Monthly rates compound: 98.7 per cent monthly is 85.5 per cent a year, and 97.4 per cent monthly is 72.9 per cent a year. A deck that quotes a monthly retention figure where an annual one belongs overstates the business by thirteen points, and every diligence analyst knows the trick. The NRR and GRR Calculator does the compounding; quote the annual number unprompted and the room relaxes.

> THE NUMBER UNDER 100
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> NRR below 100 per cent means the installed base is a leaking bucket and growth is rented from the sales team. It is survivable, common at Arbor Metrics' size, and the single most expensive number in the company to improve, which is why it is the first one to measure honestly.

3 CAC and the flattering bases

Customer acquisition cost is sales and marketing spend over customers won. Payback is how many months of a customer's margin buy that cost back. Every flattering version of these numbers changes the base, not the arithmetic.

Arbor Metrics spends £9,000 a month on sales and marketing and wins nine logos: CAC £1,000. Each customer pays £200 a month, worth £160 in gross margin, so payback is 6.25 months. On revenue instead of margin it flatters to 5.0 months, and on revenue with onboarding fees pushed in it flatters further. The honest base is gross margin, because you cannot bank revenue you spend on hosting.

The CAC, Payback and LTV Calculator shows honest and flattering side by side on purpose: knowing the gap is how you read other people's decks as well as your own.

4 LTV, and how it lies

Lifetime value divides margin per customer by the churn rate, which means it divides by the smallest and least certain number in the company.

Arbor Metrics: £160 of monthly margin over 2.2 per cent monthly revenue churn gives an LTV of £7,273 and an LTV to CAC ratio of 7.3. Respectable, and fragile: double the churn rate and LTV halves. A three-month churn blip halves the headline valuation metric while nothing else changed.

Use LTV as a direction, not a fact: it is most useful tracked quarter over quarter on the same basis, and least useful quoted to two decimal places in a deck. The ratio above three is the conventional floor; the trend matters more than the level.

5 The Rule of 40

Growth plus profit margin should clear forty. It is the one metric that forgives losing money, provided the losses are buying growth.

Arbor Metrics grew ARR from £350,000 to £480,000: 37.1 per cent. EBITDA margin is minus 5 per cent. The score is 32.1: below the bar, close enough to matter, and exactly the conversation the board should be having about whether the minus five is buying enough of the thirty-seven.

The Rule of 40 Calculator runs both the EBITDA and free cash flow versions. Consistency is the point: pick a basis, state it, and stop switching to whichever scores higher this quarter.

6 Pricing power, measured

The cheapest growth Arbor Metrics can buy is a price rise, and the fear of churn that stops it is measurable rather than debatable.

A 10 per cent rise with 3 per cent of customers lost leaves MRR at £42,680, up £2,680 a month on £40,000. The breakeven is the number worth memorising: a 10 per cent rise survives anything under

9.09 per cent of customers leaving because of it. Churn from a well-handled rise on a product people use runs far below that.

The Price Rise Impact Calculator holds the sensitivity table, including the row where churn exactly cancels the rise. Run it before the renewal cycle, not after.

7 What diligence recomputes

An investor's analyst does not read your metrics; they rebuild them from the billing export and the bank statements, then compare. The gap between what you quoted and what they rebuilt is priced as risk.

The recomputations are always the same: MRR from invoices, churn from cancelled subscriptions, NRR compounded annually, CAC with all of sales and marketing in the numerator including salaries, payback on gross margin, revenue tied to deferred income so billed and earned reconcile. Chapter five of the Tax Handbook and the Revenue Recognition workbook carry that last tie-out.

The defence is not better arguing; it is having computed the numbers the same way all along. That is what the SaaS Metrics workbook is for: one waterfall, every metric derived, nothing typed.

8 The honest deck

A metrics page is honest when every number on it traces to the waterfall and the basis is stated in the footnote. That standard is rarer than it sounds.

The Arbor Metrics deck says: £40,000 MRR growing 3.2 per cent monthly; NRR 85.5 per cent annualised, GRR 72.9; CAC £1,000, payback 6.25 gross-margin months; Rule of 40 at 32.1 on an EBITDA basis. Five lines, each recomputable by a stranger from the ledger, each with its flattering alternative declined in advance.

Companies that report this way get better terms for a dull reason: the diligence finds nothing, and finding nothing is what investors pay up for. Honest metrics are not the ethical choice at the expense of the commercial one; they are both.

Where to go next

Open the SaaS Metrics workbook, load your own movements, and read the summary block against your current deck. Where the two disagree, the workbook is right, and the interesting question is which flattering base crept in.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures, the same conventions and the same worked company as the chapters here.

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