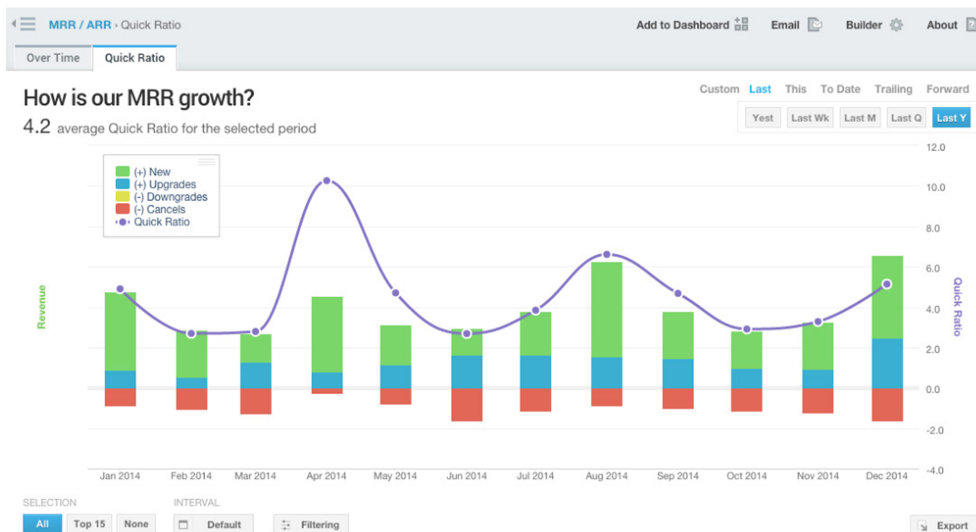
INSIGHTSQUARED

Quick Ratio: The SaaS Metric That Sways Investors

How does an investor evaluate a young SaaS company? With so many metrics defining SaaS success, it can be hard for young companies to know exactly which KPIs potential investors are using to assess their potential. At last week's **SaaStr Conference**, venture capitalist Mamoon Hamid revealed the single metric that he uses to judge the growth potential of SaaS businesses: **The Quick Ratio**.

1 What is the Quick Ratio?

Every SaaS executive knows that MRR is the engine that drives their business, but MRR growth is an incredibly multifaceted metric. What about MRR lost to cancellations and contractions? How can you compare young SaaS companies at different growth stages? That's where the Quick Ratio comes in. It rolls up all types of churn and provides a **single number that represents a SaaS business' growth potential** and ability to execute.



2 How is Quick Ratio Calculated?

For such an all-encompassing metric, your Quick Ratio is actually fairly simple to calculate:

$$\text{Quick Ratio} = \frac{\text{New MRR} + \text{Upsells}}{\text{Cancelled MRR} + \text{Contractions}}$$

In other words, take all MRR from new bookings in a given period, add to it any MRR from upsells, and then divide that figure by any MRR you lost during the same period as result of cancellations and contractions.

The Takeaway: How Do You Compare to the Quick Ratio Gold Standard?

Of course, this figure examined in a vacuum doesn't mean much. When investors analyze Quick Ratio they typically hold it up to a benchmark of 4. If a potential portfolio **company averages 4x as much added MRR as lost MRR**, that company is strongly considered for an investment.

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